



Fiscal Year 2002

# DEPARTMENT OF THE NAVY

Annual Financial Report

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# Message from the Secretary of the Navy



**THE SECRETARY OF THE NAVY**  
WASHINGTON, D.C. 20350-1000



January 2003

Today's Navy-Marine Corps Team remains the predominant maritime force in the world today. During this past year, our Sailors and Marines have advanced the long War on Terror. As we move forward, the Department of the Navy will continue to focus on fighting and winning the Nation's wars while we transform for the future.

The Fiscal Year (FY) 2002 DON Financial Statement also represents the continuation of the Department's business transformation. These efforts, described in Naval Vision 21 as "Sea Enterprise," will lead our Department to become an enterprise that is both effective and more efficient.

We will pursue this transformation by improving our business practices and driving resources from the bureaucracy to our operating forces. The department's top business priority will be to identify and increase resources available to grow and sustain the core combat capabilities that focus on our Naval Forces' warfighting readiness and combat credibility.

This FY 2002 Annual Report provides a means for Congress and the public to review and measure the effectiveness of the Department of the Navy's financial responsibility. As we fight and win the first war of the 21st century, this report shows the Department's commitment to our fiscal accountability. We want the citizens of this great Nation to be proud of the stewardship of their Navy.

A large, stylized handwritten signature in black ink. The signature appears to read "Gordon R. England" and is written with a fluid, cursive style.

Gordon R. England





# Message from the Assistant Secretary of the Navy (Financial Management & Comptroller)



**THE ASSISTANT SECRETARY OF THE NAVY**  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
1000 NAVY PENTAGON  
WASHINGTON, D.C. 20350-1000



January 2003

I am pleased to submit the Department of the Navy's (DON) Fiscal Year (FY) 2002 Annual Financial Report. This report reflects the DON's stewardship and financial accountability of resources that has become even more important as the Department moves into the 21st century.

Presently, there are a myriad of systems and processes that initiate, record, summarize, control, and report financial transactions and events. The Department of Defense (DoD) and the DON are committed to becoming more efficient, working on ways to improve "how we do business" corporately rather than concentrating only on specific programs and systems.

At the forefront of this effort is the DoD Financial Management Enterprise Architecture (FMEA) Initiative. The FMEA will not only provide a framework for conducting financial operations throughout the DoD, but will also address the standardization of data elements and transactions that are key to linking functional business processes and systems with financial management processes and systems.

During FY 2002 the Department continued ongoing efforts to support the FMEA fully. Initiatives such as Enterprise Resource Planning, converting the accounting systems to the United States Standard General Ledger, and implementing the Navy Marine Corps Intranet will place the DON in an advantageous position to transition to the architecture developed by the FMEA team.

All of these initiatives, as part of a DoD-wide solution, embody a transformation process that will ensure the DON is both effective and efficient as the Department is engaged in a Global War on Terrorism while maintaining the highest level of fiscal accountability.

A handwritten signature in black ink, reading "Dionel M. Aviles".

Dionel M. Aviles







# DEPARTMENT OF THE NAVY MANAGEMENT'S DISCUSSION AND ANALYSIS





# Management's Discussion and Analysis

## DEPARTMENT OF THE NAVY MANAGEMENT'S DISCUSSION AND ANALYSIS

### Introduction

The Department of the Navy (DON) operates the most potent naval forces in the world today, and constantly strives to reinforce its supremacy. The Navy and Marine Corps provide highly skilled, operationally agile, combat-ready forces that enhance stability, deter conflict, and triumph over all threats in all environments.

The 21st century promises to be a challenging time for the DON. The international environment is constantly evolving, and it is imperative as the department strives to sustain its current and future readiness that it continue to attract, train, and retain highly skilled and motivated people. Success in this goal demands that Sailors and Marines be given a high-quality work environment and that their families be afforded a decent standard of living. Operationally, the DON must realize a force that is fully transformed to meet the challenges ahead, that is aligned to all threats, and that is capable of triumphing in all situations. The department's preparations must be comprehensive and innovative to extract the maximum advantage from its resources and to achieve the highest possible rate of return on its investments. The DON's organization, systems, and processes must be structured to deliver a combat-capable naval force ready to stand in harm's way anytime and anywhere.

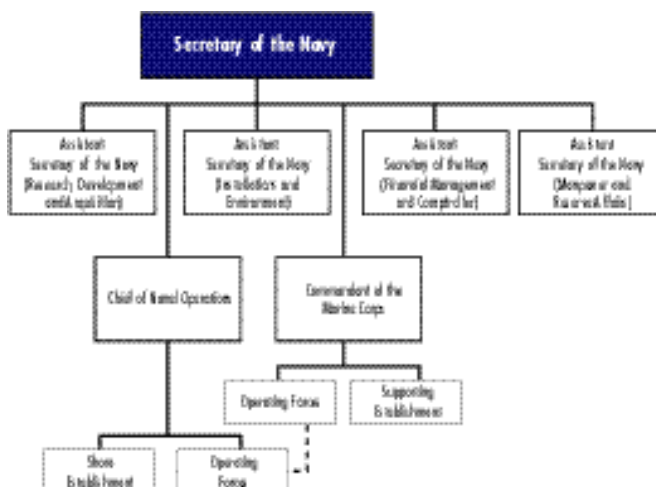


### The Department of the Navy

The U.S. Navy was founded on 13 October 1775 and the U.S. Marine Corps on 10 November 1775. On 30 April 1798 DON was formally established. The broad organizational structure of the DON today is shown in the figure below (for more detail see <http://www.chinfo.navy.mil/navpalib/organization/org-over.html>).

For the purposes of financial reporting, the DON is organized into two reporting entities: the Navy Working Capital Fund (NWCf) and the General Fund (GF). Each fund supports the department's overall mission, but where the GF receives direct appropriations from Congress, the NWCf relies principally on reimbursements from the GF and from other sources.

General Fund operations are supported by multiple appropriations: Operations and Maintenance (O&M); Military Personnel; Procurement; Research, Development, Test, and Evaluation; and Military Construction and Family Housing. The NWCf operates under the revolving fund concept, wherein the fund's activities are reimbursed by their customers for the full cost of goods and services provided. This contractual customer-provider relationship serves the interests of both the GF and the NWCf: it provides the NWCf with the means to continue operations and also provides a way of effectively controlling costs; for the GF, it provides an effective and flexible means of financing, budgeting, and accounting for costs.





### THE DON MISSION

The Department of Defense has developed a strategic framework for the defense of the nation. This framework is built around four defense policy goals:

- **Assure** allies and friends
- **Dissuade** future military competition
- **Deter** threats and coercion against U.S. interests
- **Defeat** any adversary if deterrence fails

The DON's purpose throughout history has been to serve the economic and political well being of the United States and to help secure the American way of life. The world's oceans can be barriers for defense, avenues for commerce, or a base from which to project military power. The DON ensures America's ability to use the oceans, in peace and in war, and is prepared to deny their use to our adversaries.

*"The Navy shall be organized, trained, and equipped primarily for prompt and sustained combat incident to operations at sea. It is responsible for the preparation of naval forces necessary for the effective prosecution of war except as otherwise assigned and, in accordance with integrated joint mobilization plans, for the expansion of the peacetime components of the Navy to meet the needs of war."*

(Section 5062, Title 10, U.S. Code)

*"The Marine Corps shall be organized, trained, and equipped to provide fleet marine forces of combined arms, together with supporting air components, for service with the fleet in the seizure or defense of advanced naval bases and for the conduct of such land operations as may be essential to the prosecution of a naval campaign."*

(Section 5063, Title 10, U.S. Code)

The Constitution of the United States empowers Congress to "provide and maintain a Navy." In accordance with Title 10 of the U.S. Code, Congress requires the Navy to be organized, trained, and equipped to support both the singular and complementary missions of the Navy and Marine Corps in the manner that, through achieving maritime superiority, most effectively serves U.S. national security strategy.

The Secretary of the Navy has identified four interrelated strategic areas that are critical to the mission of the DON: combat capability, people, advanced technology, and business practices.

### Combat capability

The U.S. National Military Strategy requires that the nation's armed forces be prepared to and be capable of shaping the international environment and of responding to any and all crises. The DON's battle force ships, aviation units, and Marine forces provide the foundation tools for the fulfillment of this strategy. World-wide, the operational activities of the Navy and Marine Corps include drug interdiction work, joint maneuvers, multinational training exercises, humanitarian assistance, and, when called upon, contingency operations such as those currently being undertaken in the Arabian Gulf, the Balkans, and in Afghanistan as part of Operation Enduring Freedom. On any given day, nearly 47,000 DON Sailors and Marines, on nearly 95 ships, are deployed around the world.

# Management's Discussion and Analysis

## People

A fully trained and highly motivated force is the most important element in the DON's readiness equation; consequently, personnel development and retention are among the department's most pressing challenges. To ensure the long-term effectiveness of its forces, the DON is committed to a strategy that focuses on recruiting the right people, retaining the right people, and reducing attrition.

Military manpower overall is declining, due in large part to the force restructuring that is being undertaken to meet the changing demands of warfighting. During FY 2002, however, the increased requirement that the war on terror has introduced for skill-specific staffing in areas such as antiterrorism and force protection resulted in a rise in Navy personnel levels. The DON comprises more than half a million men and women, as shown below.

**Department of the Navy Active Personnel**

	FY 2001	FY 2002
Navy - Officers	53,908	54,500
Navy - Enlisted	319,580	324,696
Midshipmen	4,217	4,281
Marine Corps - Officers	18,062	18,288
Marine Corps - Enlisted	154,872	155,445
<b>Total End Strength</b>	<b>550,639</b>	<b>557,210</b>

Sources: FY 2002 estimated figures were derived from the FY 2004 Highlights of the Department of the Navy Budget Submission to the Secretary of Defense, August 2002. FY 2001 actual figures were derived from the FY 2003 Highlights of the Department of the Navy Budget Submission to the Secretary of Defense, February 2002.

*"Caring for the safety and the professional and personal well-being of our people is inherent in Navy values-it is indispensable to mission accomplishment. We must retain our quality people."*

— The Navy Policy Book

Supplementing active personnel in FY 2002 were approximately 87,958 Navy Reservists and 39,905 Marine Reservists. DON reservists are highly trained units capable of augmenting and reinforcing the active forces. Effective integration of the reserve elements with the active component is critical to the continuing ability of the DON to fulfill its mission.

The DON also integrates civilian personnel at all levels of the organization. Civilian end strength in FY 2002 was approximately 195,328. Predominantly assigned ashore, especially in repair, design, and acquisition, the department's civilian personnel provide the expertise and assure the continuity of support that are essential to our operating forces.

## Advanced technology

The effective application of advanced technology is at the core of America's military dominance. The DON operates the most technologically advanced naval force in the world, but to preserve this advantage it is essential that the department sustain its robust science and technology programs. The DON's development efforts currently are focused on connectivity, on providing a common tactical picture, refining sensor-to-shoot capabilities, and on sustaining command and control warfare. This technology is essential to the DON's commitment to realizing the capability to deliver high-volume, precision strikes in all weather and in all terrain, and to the development of interoperational systems that enable seamless joint operations.

## Business practices

The DON has been a leader in the innovative adoption and adaptation of modern business practices, and continues to pioneer in this area with a vision for the fullest possible integration of advanced technology with proven best practices. By increasing the efficiency with which it conducts its business, the department will both increase its buying power and free up resources that then can be redirected into combat capability.





## Summary of FY 2002 Operations

In FY 2002 as in years past, the DON operated extensively in representation of U.S. interests. Forward-deployed forces continued to reassure our allies and to deter our potential enemies. In East Timor, the department also assisted the humanitarian efforts of the United Nations Transition Assistance.

*"Since Operation Enduring Freedom began, our men and women in uniform have performed magnificently in the struggle against world terrorism. Your valour, on the battlefield and off, at sea and in the air, and at military installations across the world, inspire all those who cherish freedom."*

— Secretary of the Navy  
The Honorable Gordon England

In the Mediterranean, Navy ships operated with friends and allies in more than 85 exercises. Marines of the Sixth Fleet Marine Expeditionary Units (MEUs) fulfilled a dual role by providing a presence ashore in Kosovo and by serving as the Joint Task Force Commander's ready reserve. In South America, Marines participated in riverine and small unit training.

In Southwest Asia, U.S. naval forces maintained a continuous carrier presence throughout the year, conducting combat operations in support of Operation Southern Watch over Iraq. For the tenth consecutive year, surface combatants performed maritime interdiction operations in support of UN economic sanctions against Iraq. Marines from the 15th and 22nd MEUs trained and exercised with friends and allies throughout Southwest Asia.

In the war against terrorism, naval forces were the first to respond, first to fight, and first to secure U.S. interests. Demonstrating the decisiveness, responsiveness, agility, and sustainability that are key to naval services, it was carrier-based Navy and Marine aircraft that undertook most of the early combat sorties of Operation Enduring Freedom, and it was Tomahawk cruise missiles from DON ships and submarines that attacked communications and air defense sites. In the days that followed, the DON worked seamlessly with the other services to sustain carrier strikes on sites that were further inland than had ever before been attacked from the sea. Submarines in the region provided tactical and persistent intelligence, surveillance, and reconnaissance, and maritime patrol aircraft provided reconnaissance and surveillance capabilities in support of Special Operations Forces and Marine units on the ground.

On the ground, it was Marines that provided the first conventional ground force presence in Afghanistan, establishing a secure foothold in a hostile environment and assuring access for follow-on forces. Navy Seabees improved runways, enhanced conditions at forward operating bases far inland, and established detainee camps.

## CHARTING A NEW COURSE

*"The major institutions of American national security were designed in a different era to meet different requirements. All of them must be transformed."*

— The National Security Strategy of the United States of America



# Management's Discussion and Analysis

*On September 7, 2002, Secretary of the Navy Gordon England announced the naming of a planned amphibious transport dock ship, LPD-21, New York to honor the state, the city, and the victims of September 11.*



Terrorism and other emerging threats demand that the Navy and Marine Corps transform themselves for the challenges of the 21st century. The DON vision of transformation fundamentally requires the balancing of capabilities. This is true whether the subject of transformation is ships, airplanes, weapons systems, or financial management technologies.

The National Security Strategy of the United States reflects the union of American values and national interests. The aim of this strategy is to help make the world not just safer, but better. The goals of the strategy are clear: political and economic freedom, peaceful relations with other states, and respect for human dignity. To achieve these goals, the United States will:

- champion aspirations for human dignity and foster respect for human life world-wide
- strengthen alliances to defeat global terrorism and work to prevent attacks against America and its friends
- work with others to defuse regional conflicts
- prevent anyone from threatening America, its allies, and its friends with weapons of mass destruction
- ignite a new era of global economic growth through free markets and free trade
- expand the circle of development by opening societies and building the infrastructure of democracy
- develop agendas for cooperative action with other main centers of global power
- transform America's national security institutions to meet the challenges and opportunities of the 21st century

## Naval Transformation Roadmap

The DON's transformation roadmap describes the concepts, capabilities, and processes that are central to achieving transformation. It explains how naval forces will contribute to the joint warfighting capability of the future and what changes are being implemented to promote a culture of innovation. Innovation in particular will be required to support the six critical operational goals of the U.S. military as defined in the 2001 Quadrennial Defense Review (QDR).

The 21st century will see unprecedented advances in the precision and operational reach of military operations, in connectivity, and in information dissemination. These advances will produce and enable the exploitation of a dispersed battlespace within which sovereign and sustainable naval, air, ground, and space elements will form a unified force capable of simultaneously projecting offensive power and maintaining defensive capability. They also will enable the DON to be fully integrated into the larger joint force, where through the application of state-of-the-art sensors, networks, decision aids, weapons, and supporting systems it will operate a single, comprehensive maritime network.





## Operational Goals of the 2001 QDR

- Protect critical bases of operations and defeat chemical, biological, radiological, and nuclear explosive weapons and their delivery
- Assure integrity of information systems in the face of attack and conduct effective information operations
- Project and sustain U.S. forces in distant anti-access or area denial environments and defeat anti-access and area-denial threats
- Deny enemies sanctuary by providing persistent surveillance, tracking, and rapid engagement with high-volume precision strikes, through a combination of complementary air and ground capabilities, against critical mobile and fixed targets at various ranges and in all weather and over any terrain
- Enhance the capability and survivability of space systems and supporting infrastructure
- Leverage information technology and innovative concepts to develop an interoperable, joint C4ISR (command, control, communication, computer, intelligence, surveillance, and reconnaissance) architecture and capability that includes the ability to produce a tailorable joint operational picture

## Naval Power 21

The overarching mission of the DON is to defend the United States, through actions undertaken overseas and at home. Given this mission, Naval Power 21 defines the future direction for the U.S. Navy and Marine Corps: control the seas, assure seaborne access to anywhere in the world, project power beyond the sea, and influence events and advance American interests using the full spectrum of military operations. There are three core components to Naval Power 21:

- Assuring access. Assure seaborne access world-wide for military operations, diplomatic interaction, and humanitarian relief efforts.
- Fighting and winning. Project power to influence events at sea and ashore, both at home and overseas.

- Continually transforming and improving. Transform concepts, organizations, doctrine, technology, networks, sensors, platforms, weapon systems, training, education, and the approach to people.

## The DON vision depends on four fundamental qualities:

- Decisiveness
- Sustainability
- Responsiveness
- Agility

## The DON will focus on seven areas:

- **People.** The capabilities of the DON depend first and foremost on its people. The DON's people are its most important resource.
- **Homeland Security.** The DON will address threats to America's security and engage potential adversaries.
- **Projecting Power and Influence: Winning at Sea and Beyond.** The DON's capabilities enable its forces to move directly from ship to operational objectives far inland.
- **Future Naval Capabilities: Transformational by Design.** Innovative business processes and technologies support and enable the realization of the DON's strategic vision, revolutionary operational concepts, and agile, adaptive organization.
- **Sea Enterprise: Capturing Business Efficiencies.** The DON will optimize resources at every level of the chain of command to become an enterprise that is both effective and efficient.
- **The Future: An Expanded Naval Force.** The DON's objective is the balanced joint force mix that will provide the best warfighting capability for the United States.
- **Organizing the Force: A Naval Operational Concept.** By developing and continually revising the Naval Operational Concept, the DON will identify the capability packages vital to meeting the nation's needs for a constantly transforming force.



# Management's Discussion and Analysis

The strategies of the Navy and Marine Corps are individually defined in Seapower 21 and Marine Corps Strategy 21. These documents describe the future of the DON as part of a joint force and describe capstone concepts that will focus efforts and resources within the DON on the same goal.

## Seapower 21

Seapower 21 provides the strategic framework that will guide the Navy into the 21st century. It emphasizes the needs for integrated experimentation and innovation, continual personnel development, and the adoption of private sector best practices to increase the efficiency with which the Navy conducts its business. It will enable the Navy's full integration with the other services into a platform from which future joint warfighting campaigns will be waged across sea, air, land, space, and cyberspace. Seapower 21 takes as a priority assuring the future readiness of the Navy, and in particular the readiness and capability to fulfill the Commander-in-Chief's direction to "take the fight to the enemy" in the war on terrorism.

Seapower 21 comprises three core operational concepts: Sea Strike, Sea Shield, and Sea Basing.

- **Sea Strike.** Sea Strike is a concept for the projection of dominant and decisive offensive power in the support of joint objectives. The concept highlights the four key areas of strategic agility, operational maneuverability, precise weapons employment, and the indefinite sustainment of naval forces. It also provides a strategy for the development of the multidimensional capabilities for power projection that the Navy will need in order to operate with new combinations of forces and from new platforms, such as the Expeditionary Strike Force.

The DON will maintain the capability to project offensive power by traditional means, including missiles, guns, and special operations troops. As new systems such as unmanned aircraft and miniaturized munitions are perfected and as information technology advances, Sea Strike will

integrate these with existing systems to amplify the effects of sea-based striking and further increase the Navy's ability to achieve offensive operational success.

- **Sea Shield.** Sea Shield is a concept for the enhancement of the Navy's ability to defend the United States, the joint force, and America's coalition partners. The concept requires that the Navy use its control of the seas and its forward-deployed defensive capabilities and network intelligence to defeat an enemy's area-denial strategy, thus enabling and sustaining the joint force in its projection of power. Sea Shield will extend homeland defense to the fullest extent possible: perhaps the most dramatic advancement it prescribes is the ability of naval forces to project precise, defensive firepower, including ballistic and cruise missiles, deep inland. The defensive umbrella thus envisioned will both assure friends and allies and protect the joint force. Sea Shield, when fully realized, is projected





through deterrence to have a stabilizing effect in the event of future crises but also will be a powerful tool on future battlefields. Sea Shield transformational capabilities currently being pursued include Theater Air and Missile Defense (TAMD), Littoral Sea Control, and Homeland Defense.

- **Sea Basing.** The concept of Sea Basing addresses the need to assure that the sovereign naval platforms of the joint force have operational independence. The concept envisions the use of advanced high-speed vessels, long-range naval fire support systems, and connectivity to provide sustainable global projection and protection of American power from the high seas at the operational level of war. It will leverage emerging technologies and operational concepts to provide unprecedented support for the joint force, with the objective of enabling the best possible staging for joint command and control over vast maneuver areas. Changes that will take place ashore, where increased agility and mobility will result in fluid operation throughout the battle space and superior situational awareness, are equally important. In the event of conflict, Sea Basing will enable tailored, agile forces to rapidly execute unpredictable campaign plans. On completion of their mission these forces will be swiftly extracted to their sea base, where they will be resupplied and reconstituted for further operations.

At the core of Seapower 21 is FORCEnet, the program through which the DON is pursuing the reality of network-centric warfare. The goal of FORCEnet is the creation, through the development of sensors that enable the full integration of command and control platforms, of a distributive combat system that reaches all DON personnel.

### **Marine Corps Strategy 21**

Marine Corps Strategy 21 describes the vision, goals, and aims of the Corps as it seeks to enhance its strategic agility, operational reach, and tactical flexibility in support of joint, allied, and coalition operations. These capabilities are essential to the ability of the Marine Corps to provide scalable,

interoperable, combined Marine air-ground task forces able to shape the international environment, to respond quickly across the complex spectrum of crises and conflicts, and to assure access or prosecute forcible entry where and when required. The underlying concepts of the strategy include:

- the development of Marines able to win America's battles who exemplify American ideals in peacetime as well
- optimization of the operating forces and the support and sustainment base, and pursuit and optimization of the Marine Corps' unique capabilities
- sustainment of the enduring Navy—Marine Corps relationship
- reinforcement of the Marine Corps' strategic partnership with the Army, Air Force, and U.S. Special Operations Command
- contribution to the development of joint, allied, coalition, and interagency capabilities
- capitalization on innovation, experimentation, and technology

To advance these concepts, the Marine Corps has introduced the capstone concept of Expeditionary Maneuver Warfare, which brings together the Marine Corps' core competencies, maneuver warfare philosophy, expeditionary heritage, and sea basing with the integrating, operational, and functional concepts by which the Marine Corps will organize, deploy, and employ forces today and in the future.

### **The President's Management Agenda**

The President's Management Agenda (PMA) is a strategy for improving the management and performance of the federal government. Reflecting the Administration's commitment to achieving immediate, concrete, and measurable improvements in federal management, the PMA provides five government-wide initiatives to serve as a starting point for reform.

The next section focuses on the tenets outlined in the PMA, and addresses what the DON is doing to answer the President's call for reform.

# Management's Discussion and Analysis

## The Five PMA Initiatives

- Improved financial performance
- Budget and performance integration
- Strategic management of human capital
- Competitive sourcing
- Expanded electronic government

### Improved financial performance

It is critical that DON managers be furnished with accurate, comprehensive, and useful financial management information. It is only with this information that they are able to make the investment decisions and develop the operational strategies that most effectively use scarce budget resources. In accordance with the Department of Defense (DoD) initiative of developing the DoD-wide Financial Management Enterprise Architecture, the DON therefore has adopted a comprehensive strategy of migratory systems enhancement and business process standardization. Modernization of the DON financial systems and initiatives such as Enterprise Resource Planning pilots, U.S. Government Standard General Ledger implementation, and the Navy/Marine Corps Intranet are making progress and will significantly improve both the quality of information and the efficiency of DON business processes.

## Financial Management Enterprise Architecture

Early in 2001, the Secretary of Defense commissioned an independent study of DoD financial management under the auspices of the Institute for Defense Analysis. "Transforming the Department of Defense Financial Management: A Strategy for Change," was published in April 2001. The study found that no single source was addressing the key issues end to end, neither at a strategic nor at a programmatic level. In short, DoD lacked an overarching approach to financial management. In response to the study, the Secretary of Defense established the Defense Financial Management Modernization Program Office (DFMMPO), and tasked it with developing a blueprint for a DoD-wide financial management architecture. FMEA, the Financial Management Enterprise Architecture, will be consistent with the DoD Chief Information Officers' Information Technology Architecture.

## The Vision

DoD will be managed in an efficient, businesslike manner in which accurate, reliable, and timely financial information, affirmed by clean audit opinions, is available on a routine basis to support informed decision-making at all levels throughout the department.



torpedo boats to multimission-capable combatants tasked with an ever expanding range of operations. DON destroyers played an active role in every major armed conflict of the past century. The heritage of destroyers responding to the call of duty continues today as our destroyers support Operation Enduring Freedom.

2002 marks the centennial year of the destroyer, one of the DON's great ship classes. Destroyers have transformed from single-mission platforms tasked with destroying





The DON fully supports the DFMMPO's efforts, and with other stakeholders is participating in all aspects of development of the enterprise architecture. In October 2002 the DFMMPO released a draft "strawman" architecture that covers the following overarching business process areas from a systems, technical, and operational view:

- accounting
- logistics
- property, plant, and equipment
- collection and accounts receivable
- operations
- financial management reporting
- procurement, payable, acquisition, and disbursing
- human resource management
- programming, budget, and funds control

The purpose of the strawman architecture is to outline the principles behind the development of the architecture, to identify any necessary changes in high-level business practice, and to address known deficiencies within each of the business process areas.

The Department of Defense also is taking steps to formulate a transition plan, with the understanding that overhauling the department's business operations and financial management is a major challenge that extends far beyond the initial step of developing an enterprise architecture. Successful implementation of the architecture will require a robust plan that addresses and guides change not only in technology but also in business operations, information standards, management practices, and cultural norms. Because of the variety and complexity of the DoD business operations environment, the transition plan will provide guiding design principles rather than narrow definitions of how systems and processes should operate - in essence, it will serve as a high-level, comprehensive master plan that permits local customization as each department moves from the "as is" to the "to be" environment. As the transition effort progresses from design to implementation, the DON anticipates that its involvement in the effort and its coordination with DoD will grow.

## Enterprise Resource Planning

Enterprise Resource Planning (ERP) is a business management system that through integrating the different business processes of an enterprise, consolidating business systems, and consolidating data entry seeks to increase the efficiency of the enterprise. A DON Commercial Business Practices working group identified ERP as appropriate for the DON for its ability to:

- provide decision-quality information to all levels of management
- improve efficiency and effectiveness through the reengineering of business processes and the delivery to managers of integrated information
- manage costs, thus enabling the reallocation of resources to recapitalization and modernization
- enable compliance with statutory requirements such as the Government Performance and Results Act (GPRA) and the Chief Financial Officers (CFO) Act

The implementation of ERP solutions is helping move the DON toward CFO Act compliance by enabling the department to (1) meet federal financial management regulations, accounting standards, and requirements; (2) implement the U.S. Government Standard General Ledger (USSGL); and (3) provide 100 percent drill-down capability to source transaction events.

The DON has initiated four pilot programs to determine the effectiveness of ERP solutions across a broad range of business practices. Two of these pilots, CABRILLO and NEMAIS, were operational in FY 2002, with notable success.

The CABRILLO pilot project, which is designed to improve business operations, processes, and support systems, was the first to be inaugurated.

In July 2001, employees at the Space and Naval Warfare Systems Center in San Diego began using the new system for tracking property, ordering supplies, establishing contracts, and preparing project reports and financial statements. The CABRILLO ERP solution replaces numerous legacy systems and simplifies management by integrating multiple mandated information systems and databases. It also has the benefit of providing users with a single entry point to all financial applications, information, and services.

# Management's Discussion and Analysis

NEMAIS, or Navy Enterprise Maintenance Information System, is a pilot project designed to standardize ship maintenance functions ashore. NEMAIS affords ships visibility of shoreside data and enables connectivity to contractor systems for new construction, thereby permitting the use of common processes for the entire ship maintenance community. The project comprises four pilot phases: Ship Intermediate Maintenance Activities, Naval Shipyards, Supervisors of Shipbuilding (SUPSHIPS), and Afloat Platforms. The Ship Intermediate Maintenance Activities pilot went live in Norfolk in June 2002, and as of September was operating in 52 ships. The Naval Shipyard pilot is scheduled to go live in October 2003, with the SUPSHIPS and Afloat Platforms slated to go live in early 2004.

Two further Navy pilot programs were preparing to go live during FY 2002. Project Sigma, the Navy's Program Management Pilot, was scheduled for launch on October 1, 2002 at NAVAIR Headquarters. A follow-up implementation is scheduled for January 2003 at the Naval Air Warfare Center Aircraft and Weapons Division. Project Sigma is an enterprise solution that will replace many legacy systems and that will provide NAVAIR and the Navy with a single point of data entry and real-time, accurate financial information.

The fourth pilot program is the System Maintenance Aviation Reengineering Team (SMART) pilot, a joint venture between NAVSUP and NAVAIR. Scheduled to go live on December 1, 2002, the SMART pilot is designed to streamline aviation maintenance and supply.

The DON and Under Secretary of Defense (Comptroller) (USD(C)) leadership will evaluate each pilot on completion before moving forward with full-scale implementation. In particular, the DON is working closely with the USD(C) DFMMPO team to ensure that the ERP strategy fully supports the FMEA direction and transition plans. The DON also has established a Navy Enterprise Convergence Team (NECT) to standardize configuration and processes across the pilot programs, and ultimately to develop an ERP solution that eventually can be rolled out to other DON activities.

## Financial standardization and reinvention

The DON also is pursuing several other initiatives aimed at improving financial performance. These include the following:

- **Accounting standardization.** The DON Uniform General Ledger, based on the U.S. Government Standard General Ledger, consists of the uniform Chart of Accounts (COA) and Standard Transaction Library (STL). Together the COA and STL list the resources available and applied to meet the mission goals and program objectives of the DON. The COA is the common source of information that will enable the coordination of efforts to develop a standard enterprise-wide information architecture. Where the COA provides the standard framework for expressing business events in financial terms, the STL defines the content and application of accounts within the COA. Within the existing, or migratory, systems, the DON STL will provide the tool needed to clarify the transaction posting logic, ensuring that common business events are translated accurately into financial transactions for all DON activities and commands.
- **Report streamlining.** In partnership with the Defense Finance and Accounting Service (DFAS), the DON is examining a number of reporting problems and developing strategies to resolve them. The approach being taken is to change the emphasis from report design to the identification and definition of key management information. The Marine Corps, for example, is implementing a process to identify unnecessary, duplicative, or excessive reporting requirements. Reports to be eliminated will be identified through the Business Industry Council (BIC), a group of private sector professionals that is coordinating with DoD to leverage private sector best practices.
- **Accounts Payable Implementation Strategy.** The DON has initiated the development of an Accounts Payable Implementation Strategy to improve the recording and reporting of accounts payable. The strategy addresses the overall DON approach to recording accounts payable, including accounts payable from commercial







and intragovernmental sources. Development of the implementation strategy is in its final stages and includes several recommendations for improvements. These address, for example, the timely recording of accounts payable transactions, the proper classification of accounts payable between the government and the public, the identification of intragovernmental trading partners and related transactions, and the support of end-of-period adjusting entries for undistributed disbursements and intragovernmental eliminations.

## BUDGET AND PERFORMANCE INTEGRATION

The full and effective integration of budget and performance data will require the use of performance metrics in managing and justifying program resources.

Performance-based budgeting seeks to shift the focus of attention from detailed items of expense to the allocation of resources based on program goals and measured results. As budgets decline and budgetary decision-making becomes more difficult, performance-based budgeting will become increasingly important, by providing a tool that enables the problem of duplicative programs to be addressed, by supporting creation of a framework that integrates and compares decisions that affect related programs, and by offering an alternative to across-the-board reductions.

*"In the long term, there are few items more urgent than ensuring that the federal government is well run and results-oriented."*

— President George W. Bush

Improving programs by focusing on results is an integral component of the DON's budget and performance integration initiative. The Office of Management and Budget (OMB) accordingly has instituted Program Performance Assessments for the budget process that provide a rating system that is consistent, objective, credible, and transparent. As OMB solidifies its management requirements the

DON will update its performance scorecard for each of the areas outlined in the President's Management Agenda.

## STRATEGIC MANAGEMENT OF HUMAN CAPITAL

The DON has experienced rapid downsizing of almost 45 percent since 1989. Much of this downsizing was accomplished through across-the-board reductions and hiring freezes, rather than through targeted reductions. As a result, the DON faces an employment challenge that is common to the federal government: the need to reshape the workforce to ensure that the right people, with the right skills, are in the right jobs, and that the department thus is optimally equipped to meet the challenges of the future.

Given the speed of technological change, it is essential that the DON recruit the best people possible. The department is building on the successes of Navy and Marine Corps commands in identifying and expanding the use of best recruitment practices to attract high-quality individuals at entry and mid-career levels; specifically, better than anticipated manning in FY 2002 helped reduce at-sea billet gaps and allowed the DON to begin to fill new positions that have been created in areas such as antiterrorism and force protection. The DON is also examining and using innovative workforce-shaping strategies to ensure that its civilian workforce is able to meet its responsibilities as an integral part of the total force.

In addition, "the DON has undertaken a number of initiatives to make its processes more sailor centered." These include a Sailor Advocacy Program that has expanded outreach to Sailors by their personnel managers. Improved compensation and better skill development programs also are being instituted as a means of shaping careers and thus of helping the department meet its current and future staffing requirements.

Professional development and training programs are central to good personnel management. The Navy has launched Task Force EXCEL (Excellence through Commitment to Education and Learning) to create a "Revolution in Training," leveraging distance learning technologies

# Management's Discussion and Analysis

and an improved information exchange network to support a career-long training continuum. The Navy College Program and the Marine Corps Lifelong Learning Program both support the career-long professional development of DON personnel; examples of programs that rely heavily on advanced distance learning systems include the Marine Corps' Satellite Education Network (MCSEN) and the MarineNet Distance Learning Program.

Professional growth of the DON's financial management workforce is supported by the Civilian Financial Management Career Program Improvement (CFMCPI). The CFMCPI endorses a variety of training methodologies, including mentoring and organizational rotation assignments. The DON additionally aids its financial managers in their pursuit of the Certified Government Financial Manager (CGFM) and Certified Defense Financial Manager (CDFM) designations. The CGFM and CDFM programs address a wide range of knowledge and skills, and are invaluable in helping the department's financial managers stay abreast of emerging practices and technologies.

## COMPETITIVE SOURCING

The DON's FY 2004 budget submission fully reflects the PMA initiative to use commercial business practices to improve operational effectiveness and efficiency and to realize savings for modernization and recapitalization. The department's Strategic Sourcing program has identified more than 100,000 civilian and military positions that will be reviewed for potential conversion to outsourcing.

The cost comparisons completed to date have found that 80 percent of the positions reviewed have remained in-house. Approximately 56,000 positions remain under review. Current projections, however, indicate that the outsourcing of those functions that thus far have been found appropriate for commercial sourcing are on target to realize budgeted annual net savings of \$1.6 billion, beginning in FY 2005. These savings attest to the DON's commitment to institutionalize the Strategic Sourcing process to realize cost reductions and to reshape its infrastructure to suit the requirements of the 21st century.

*"The reinvention of government begins by focusing on core mission competencies and service requirements. Thus, the reinvention process must consider a wide range of options, including:*

- the consolidation, restructuring, or reengineering of activities;*
- the adoption of better business management practices; and*
- the termination of obsolete services or programs."*

— OMB Circular A-76

Revised Supplemental Handbook, 27 March 1996

## EXPANDED ELECTRONIC GOVERNMENT

The DON has implemented the eBusiness (eB) initiative to shift its business transactions to follow commercial standards and practices. The initiative centers on the interchange and processing of information via electronic techniques, but prior to the uptake of those techniques DON business process first must be reengineered and streamlined. The eB Operations Office is the DON's innovation center for eB concepts. Its charter specifies two main objectives:

- serve as a catalyst for the creation, realization, and integration of eB concepts via Pilot Projects, and provide consulting and research services department-wide
- centralize control of existing card-based electronic transaction systems





The Marine Corps' "Managing for Results" initiative will link resources consumed by DoD installation activities to performance outcomes, customer demands, and work outputs by using Activity-Based Costing and Management tools. The Marine Corps will then identify and share best practices across the services."

The 22 pilot projects funded in FY 2002 have had far-reaching benefits. These include the provision of on-demand access to combat system performance and readiness information; the automation of aviation depot maintenance condition data; the paperless distribution of Planned Maintenance System materials; and the creation of the USMC Warfighter Portal, an Internet-based front end to the Marine Corps Combat Service Support systems.

## SUMMARY

The DON is committed to simplifying the acquisition process, streamlining the bureaucratic decision-making process, and promoting innovation through the use of electronic government, or e-government, initiatives. To achieve these objectives and the goals set forth in the QDR, the National Security Strategy, the Annual Defense Report, and the President's Management Agenda, transformation is necessary in operations as well as in business practices. All DON leaders, uniformed and civilian, are now thinking in terms of maximum productivity, minimum overhead, and measurable output. Every dollar the taxpayers entrust for the nation's defense needs must be spent wisely.

The Department of the Navy operates the most potent naval forces in the world. Despite facing the challenges of recruiting and retaining the best people, maintaining adequate force structure, recapitalizing aging infrastructure, and fighting both symmetrical and asymmetrical threats, the DON is clear of purpose, focused on the future, and confident in its capabilities. By successfully meeting the challenges outlined here, it will remain ready to assure America's allies and friends, to deter its potential adversaries, and to defeat its enemies.

## CONTROLS AND LEGAL COMPLIANCE

To ensure that the DON's mission and objectives are met, internal accounting and administrative controls are evaluated in accordance with Office of Management and Budget (OMB) and DoD guidance.

The objective of this evaluation is to provide reasonable assurance that

- obligations and costs are in compliance with applicable laws;
- funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial, and statistical reports and to maintain accountability over the assets.

The evaluation of management controls extends to every responsibility and activity undertaken by the DON and is applicable to financial, administrative, and operational controls. Evaluation of DON systems was performed in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of the DON in effect during the fiscal year that ended 30 September 2002, taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved. (For additional details, refer to the FY 2002 DON Statement of Assurance.)



# Department of the Navy

## DEPARTMENT OF THE NAVY GENERAL FUND PERFORMANCE MEASUREMENT AND FINANCIAL ANALYSIS

The Department of the Navy (DON) operates in multiple countries, at sea and ashore, in every time zone and every climactic region; the spotlight never leaves our emblem. With a charter to defend the nation and its interests at home and abroad, it is essential that every DON employee take an active role in using resources wisely, ensuring success in each endeavor. Improving programs by focusing on results is an integral component of the DON's transformation initiatives.

### Budget and Performance Integration

The President stated that his Administration is "dedicated to ensuring that the resources entrusted to the federal government are well managed and wisely used." Improving programs by focusing on results is an integral component of the DON's budget and performance integration initiative. As part of this government-wide initiative, the Office of Management and Budget (OMB) has instituted Program Performance Assessments for the budget process, which identify programs that will be measured in "getting to green."

A critical goal for future budget submissions is to improve the program rating process by making ratings more consistent, objective, credible, and transparent. The report developed for use in the rating of programs is called the Program Assessment Rating Tool (PART). The PART is a series of questions designed to provide a consistent approach to rating programs across the federal government. The PART is a diagnostic tool that relies on objective data to inform evidence-based judgments and evaluate programs across a wide range of issues related to performance.

### The initial draft PARTS from OMB include:

- Air combat
- Basic research
- Combined COM infrastructure
- Housing
- Shipbuilding

In addition to the PART, the 2001 Quadrennial Defense Review (QDR) established a risk framework that will ensure the nation's military is properly prepared to carry out the strategy. Within the framework there are four tenets of risk management:

- force management;
- operational risk;
- future challenges; and
- institutional risk.

Once these risk tenets have been fully assessed, the actions taken to mitigate potential vulnerabilities will further enhance DON's ability to balance defense strategy, force structure, and resources.

Additional performance information may be obtained from DON's FY 2004 and FY 2005 Budget Submissions and from the Department of Defense's Annual Performance Report

### PERFORMANCE MEASUREMENT

The DON is continuing to use the performance metrics established in the FY 2001 QDR; it is recognized that some metrics may change once guidance has been finalized. For purposes of this annual financial report, one performance measure per goal was selected to demonstrate the type of information that will be incorporated into the revised standards for performance measurement. *Information derived from the FY 2004 DON Budget Submission to the Secretary of Defense*

Annual Performance Goal	Performance Measure
Force Management	Force Levels
Operational Risk	Operational Tempo
Future Challenges	Ship Programs
Institutional Risk	Current Initiatives





## Goal 1: Force management

This goal measures the DON's ability to recruit, retain, train, and equip sufficient numbers of quality personnel and sustain the readiness of the force while accomplishing operational tasks. Trained and adequately compensated manpower is the most important resource in our readiness equation. America's naval forces are combat-ready largely due to the dedication and motivation of our sailors, marines, and civilians. The development and retention of quality people are vital to the DON's continued success and are among the Department's biggest challenges. Meeting these challenges is essential to long-term effectiveness, and the DON continues to focus on three fronts: recruiting the right people, retaining the right people, and reducing attrition.

### PERFORMANCE MEASURE

#### Force Levels

The DON met all force level goals in FY 2002 as detailed below.

Battleforce Ships	313
Naval Reserve Force Ships	15
Strategic Sealift Ships	110
Active Air Wings	18
Reserve Air Wings	5

## Goal 2: Operational risk

This goal measures the DON's ability to achieve military objectives in a near-term conflict or other contingency.

### PERFORMANCE MEASURE

#### Operational Tempo (OPTEMPO)

Deployed ship operations are budgeted to maintain highly ready forces, perform the full spectrum of military activities, and to meet forward deployed operational requirements and overseas presence commitments in support of the National Military Strategy.

For deployed forces, the DON met its goal of 54.0 underway days per quarter in FY 2002. The DON also met its goal of 28.0 underway days per quarter for non-deployed forces.

## Goal 3: Future challenges

This goal measures the DON's ability to invest in new capabilities and develop new operational concepts needed to dissuade or defeat mid to long-term military challenges.

### Ship Programs

The DON continues to address the requirement for the acquisition, modernization, and recapitalization of the world's preeminent fleet. Continuing to integrate emerging technologies, the DON will ensure that tomorrow's fleet remains on the cutting edge. This is manifested by development efforts for the CVN(X), DD(X), and Littoral Combat Ship (LCS).

- CVN(X). The DON continues to support the requirement for future carriers, specifically with the development of the CVN(X). The CVN(X) will be the future centerpiece of the battlegroup, incorporating new electrical generation, distribution, and radar systems.
- DD(X). The DD(X) is the centerpiece of the transformational 21st century family of surface combatants. DD(X) will be a multi-mission surface combatant, providing offensive, distributed, and precision firepower at long ranges in support of forces ashore.
- LCS. The Littoral Combat Ship is envisioned to be a fast, agile, stealthy, relatively small and affordable surface combatant capable of operating in support of small boat prosecution, mine counter measures, shallow water anti-submarine warfare, intelligence, surveillance, and reconnaissance.
- Submarine programs. The DON has continued to modernize its existing submarine fleet with the latest technology ensuring the viability of these critical ships, while, at the same time, continuing to replace aging fast attack submarines with the new Virginia class submarine.

# Department of the Navy

## Goal 4: Institutional risk

This goal measures the DON's ability to develop management practices and controls that use resources efficiently to promote the effective operation of the Defense establishment.

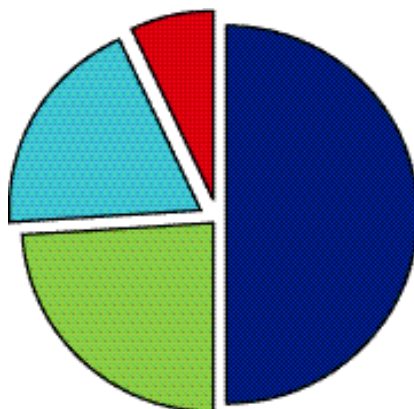
The DON continues to become more efficient, examining opportunities to improve the "way we do business." Making the process more efficient leads to more effective results and to solutions that are affordable. Towards this end, the DON is establishing metrics to monitor critical functional areas that are vital to our success.

Initiatives currently underway that are revolutionizing the way we do business include:

- Navy Marine Corps Intranet;
- Enterprise Resource Planning;
- Electronic Business;
- Strategic Sourcing; and
- Risk Management.

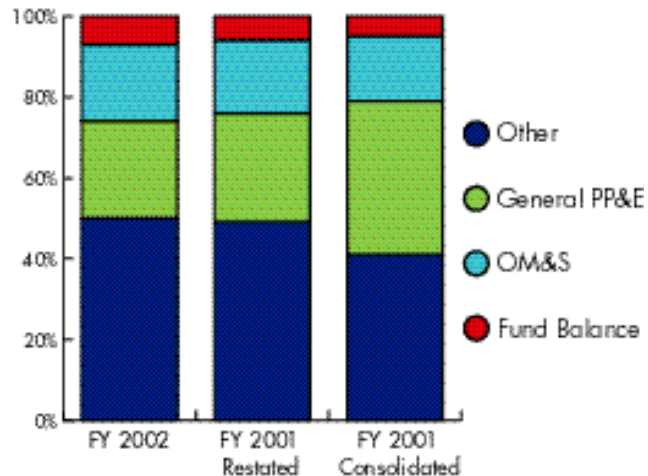
## FINANCIAL ANALYSIS

### FY 2002 Asset Composition



- Fund Balance 50%
- OM&S 24%
- General PP&E 19%
- Other 7%

### FY 2002/FY 2001 Asset Comparison



Asset composition remained relatively constant between the FY 2002 and the FY 2001 Restated financial statements. Operating Material & Supplies (OM&S) was significantly higher in the FY 2001 Consolidated financial statements due to the inclusion of tactical missiles and torpedoes. Fund Balance with Treasury, which represents funds available to the DON that are on deposit with the U.S. Treasury, remained the largest component of assets.

As the Federal Accounting Standards Advisory Board (FASAB) exposure draft "Eliminating the Category National Defense Property, Plant and Equipment" is approved and implemented by the DON, shifts in asset composition are anticipated. As a whole, the DON expects to recognize significant increases in Asset values as Military Equipment, previously reported as Required Supplementary Stewardship Information, is capitalized.

#### Fund Balance with Treasury (\$ in thousands)

FY 2002	FY 2001 Restated and Consolidated	Percentage Change
\$ 68,249,955	\$ 66,338,979	- 2.88%

The Fund Balance with Treasury represents the aggregate amount of funds for which DON is authorized to make expenditures.



### Operating Materials and Supplies (OM&S), Net (\$ in thousands)

FY 2002	FY 2001 Restated	Percentage Change	FY 2001 Consolidated	Percentage Change
\$ 33,003,595	\$ 36,295,749	- 9.07%	\$ 61,061,553	- 45.95%



OM&S consists of spares and repair parts, ammunition, and munitions. The 9.07% decrease between FY 2002 and FY 2001 Restated numbers is primarily attributable to:

- A Department of Defense Inspector General (DoDIG) recommended audit adjustment to remove mobile facilities, aviation support equipment, and calibration standard material that was misclassified as OM&S in FY 2001; and
- Implementation of the Office of the Undersecretary of Defense (Comptroller) (OUSD(C)) policy as stated in "Accounting for Excess, Unserviceable and Obsolete (EOU) Inventory and Operating Materials and Supplies." DON's implementation resulted in items traditionally reported as EOU being reclassified to the categories "held for use" and "held for repair".

The 45.95% decrease between FY 2002 and FY 2001 Consolidated numbers is also impacted by a DoDIG recommendation to remove tactical missiles and torpedoes that were previously reported as ammunition and munitions in the FY 2001 Consolidated statements.

Going forward, the implementation of FASAB's exposure draft "Eliminating the Category National Defense Property, Plant and Equipment" will continue to impact OM&S values.

### General Property, Plant, and Equipment (PP&E), Net (\$ in thousands)

FY 2002	FY 2001 Restated	Percentage Change
\$ 24,109,437	\$ 24,961,487	4.60%

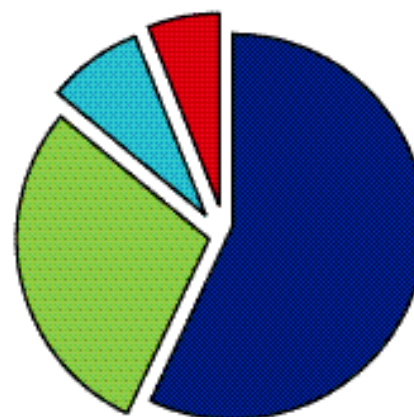
General PP&E is made up of land, buildings, structures, utilities, software, equipment, assets under capital lease, and construction-in-progress. The 4.60% increase is the result of DON's ongoing efforts to ensure total asset visibility.

### All Other Assets (\$ in thousands)

FY 2002	FY 2001 Restated and Consolidated	Percentage Change
\$ 8,530,186	\$ 8,999,152	- 5.21%

The Other category noted above consists of Accounts Receivable, Investments, Advances, Prepayments, and Other Assets. The decrease of 5.21% is primarily attributable to fewer outstanding contract financing payments.

### FY 2002 Liability Composition

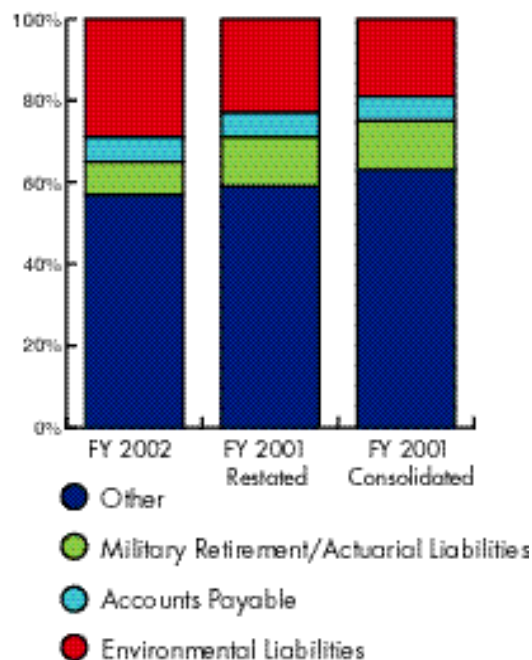


- Environmental Liabilities 57%
- Other 29%
- Accounts Payable 8%
- Military Retirement/Actuarial Liabilities 6%



# Department of the Navy

## FY 2002/FY 2001 Liability Comparison



FY 2002 liabilities increased by \$531,007 thousand when compared to the 2001 Restated totals. This principle factor in the increase is Other Liabilities. Overall, FY 2002 liabilities increased by \$2,014,372 thousand when compared to the 2001 Consolidated totals.

## Accounts Payable (\$ in thousands)

FY 2002	FY 2001 Restated and Consolidated	Percentage Change
\$ 2,258,608	\$ 3,077,308	- 26.60%

DON's active pursuit of timely vendor payments is the primary driver in the decrease of Accounts Payable. It is important to note that DON's Accounts Payable balance is directly affected by the elimination process based upon trading partner submissions. Current funding levels and the status of budget execution also affect Accounts Payable.

## Environmental Liabilities (\$ in thousands)

FY 2002	FY 2001 Restated and Consolidated	Percentage Change
\$ 15,469,073	\$ 15,584,458	- .74%

DON's Environmental Liabilities include the Defense Environmental Restoration Program (DERP) and environmental disposal for weapon systems. During FY 2002, DON completed accreditation of the Cost to Complete model for DERP reporting.

## Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (\$ in thousands)

FY 2002	FY 2001 Restated and Consolidated	Percentage Change
\$ 1,546,375	\$ 1,595,890	- 3.10%

Military Retirement Benefits and other Employment-Related Actuarial Liabilities are associated with the Federal Employees Compensation Act (FECA). Data is derived from actuarial estimates provided by the Department of Labor. The liability is determined using a method that utilizes historical benefit payment patterns to predict future payments.

## All Other Liabilities (\$ in thousands)

FY 2002	FY 2001 Restated	Percentage Change	FY 2001 Consolidated	Percentage Change
\$ 7,675,117	\$ 6,160,510	24.59%	\$ 4,677,145	64.10%

Other Liabilities consists of Debt and Other Liabilities. FY 2001 Consolidated and Restated totals differ by \$1,483,365 thousand. The difference is attributed to the A-12 aircraft program Accounts Receivable balance. In FY 2002, the DON recorded an adjustment to reflect the fact that any collections would be surrendered to Treasury.





## ORGANIZATION OF THE NAVY WORKING CAPITAL FUND

The Navy Working Capital Fund (NWCF) is comprised of five primary business areas, each of which has a unique contribution to make in support of the DON mission. The five business areas are as follows:



Each business area is further supported by one or more primary Activity Groups, which have distinct but complementary missions. Details of the mission, structure, and performance of the Activity Groups and their associated activities are provided in subsequent sections of this report.

The Activity Groups of the NWCF do not receive an annual appropriation, but receive their cost authority from customer orders. NWCF activities accept these orders, perform work and/or deliver goods to their customers, and bill the customers. The costs are initially incurred against the NWCF and the payments from customers reimburse the respective NWCF activity. Pricing of the goods and services is based primarily on stabilized rates. This cycle is continuous, and the NWCF is thus considered a revolving fund.

This report also contains supporting Consolidating/Combining Statements representing the financial position and results of operations for the NWCF reporting segments. The reporting segments include the Navy Component Level, Ordnance, and the Information Services statements. The financial information for these reporting segments reflects administrative rather than functional performance:

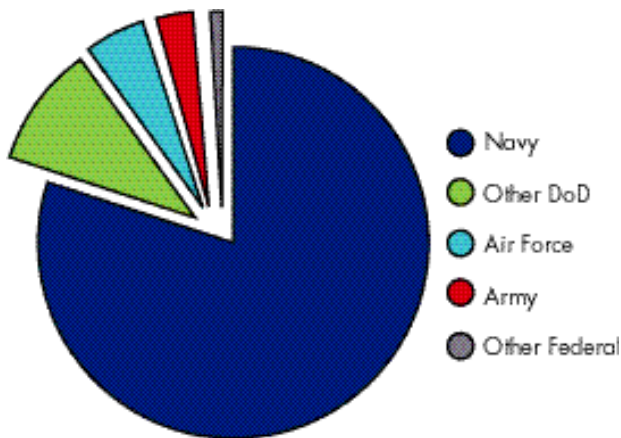
- The Navy Component Level reporting segment is a nonoperational administrative segment for the purpose of capturing and reporting department-level transactions and adjustments.
- The Ordnance business area transferred to the General Fund in FY 2000. The balances for this group reflected in the FY 2002 Annual Financial Statements represent residual accounting transactions. Residual accounting is necessary to ensure that the requirements initiated by the NWCF are ultimately funded by the NWCF.
- The Information Services business area was dissolved at the end of FY 2001. The operations of both the Fleet Material Support Office (now called the Naval Systems Information Systems Activity) and the Space and Naval Warfare Systems Command, Information Technology Center that comprised this business area were effectively merged beginning FY 2002 to the Supply Management-Navy business area and SPAWAR's General Fund. All residual NWCF transactions were transferred to SSC Charleston, respectively. The related financial activity in the Consolidating/Combining Statements reflects residual accounting events.
- The statements and related notes are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2001. In accordance with SSFAS No. 21, the FY 2001 presentation has been restated to show the correction of a material error discovered in FY 2002, and is identified in the Financial Statement presentation in the column titled "Restated 2001". More information about this prior period adjustment may be found in Note 20.



# Department of the Navy

## THE CUSTOMERS OF THE NWCF

The Required Supplementary Information section of this report details the revenue earned by the NWCF from transactions with customers throughout the federal government. Analysis of these transactions indicates that the Department of the Navy General Fund provided the NWCF with the largest dollar amount of work in FY 2002, accounting for \$17.7 billion of the total \$20.9 billion earned. The chart below depicts the customers of the NWCF:



**NWCF Intragovernmental Revenue Earned, by Customer (\$ in thousand)**

Navy General Fund	\$ 17,766,429	85.0%
Other DoD	2,110,079	10.1%
Air Force	509,142	2.4%
Army	215,160	1.0%
Other Federal	315,450	1.5%
<b>Total</b>	<b>\$ 20,916,260</b>	<b>100.0%</b>

The NWCF will continue to be a major support element for the operating forces of the Navy and Marine Corps with total cost of goods and services to be sold by the NWCF projected to exceed \$22 billion in FY 2003<sup>1</sup> and \$23 billion in FY 2004<sup>2</sup>.

<sup>1</sup> FY 2003 Highlights of the Department of the Navy Budget Submission to the Secretary of the Defense, February 2002.

<sup>2</sup> FY 2004 Highlights of the Department of the Navy Budget Submission to the Secretary of the Defense, August 2002.

## PERFORMANCE MEASURES

### The Net Cost of Operations

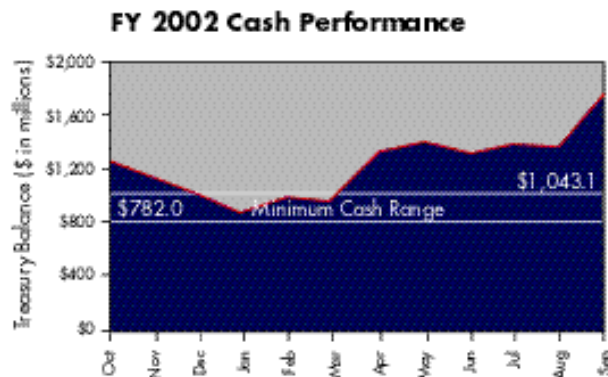
The NWCF activities operate under the principle of controlling costs or expenses that are then offset by revenue, as opposed to a metric based on obligating funds before they expire. Analysis of Earned Revenue, Program Cost, and the Net Cost of Operations can thus provide an indication of how well the NWCF is performing as it seeks to break even over the long-term.

For nonsupply activities, the revenue earned in the NWCF is based primarily on stabilized rates that are calculated to cover the estimated costs of products and services provided by the NWCF. These rates also take into account any prior-year gains or losses. Within the Supply Management Activity Group, revenue is earned based on a cost recovery factor assigned to inventory units.

Under the Working Capital Fund concept, all cost elements are visible, including direct costs, indirect costs (overhead), and general and administrative costs. These cost elements are tied to a measurable, identifiable output.

### Cash Management

For the NWCF, cash management is maintained at the DON level. The requirement for the NWCF is to maintain seven to 10 days of operating cash and six months of capital outlays. For FY 2002, the seven-day cash requirement was \$782.6 million, and the 10-day cash requirement was \$1,043.1 million.

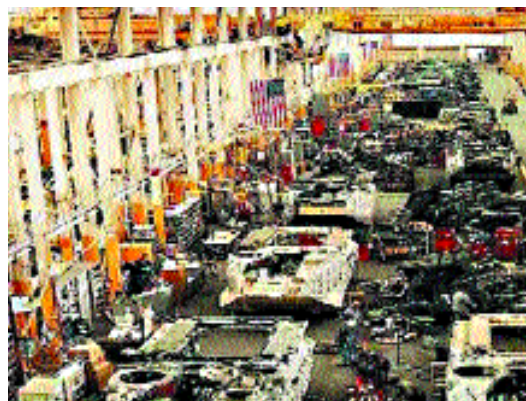


The NWCF Treasury cash balance as of September 30, 2002 was \$1,709.7 million, compared to the President's budget projection of \$1,051.3 million. The Treasury cash balance exceeded budget projections primarily because of the additional workload and accompanying sales and revenue associated with Operation Enduring Freedom.

## MISSION, OPERATING RESULTS, AND PERFORMANCE BY BUSINESS AREA

### Depot Maintenance

The mission of Depot Maintenance, in general, is to provide responsive worldwide maintenance, engineering, and logistics support to operational forces and to maintain the essential industrial capability to support mobilization. Because of the nature and diversity of the equipment within the DON, three activity groups specializing in ships, aviation, and the Marine Corps, respectively, carry out the mission. The type of support provided by the depot maintenance activities can include design, construction, overhaul, and repair on anything from ship parts and aircraft engines to ground equipment.



### Depot Maintenance Net Cost of Operations (\$ in thousands)

	FY 2002	Revised FY 2001	FY 2001
Earned Revenue	\$ 4,787,303	\$ 3,120,900	\$ 3,120,900
Program Costs	\$ 5,234,807	\$ 3,961,188	\$ 3,961,888
Net Cost of Operations	\$ (447,504)	\$ (840,988)	\$ (840,988)

### Transportation

One NWCF Activity – the Military Sealift Command (MSC) – comprises the transportation business area.

The mission of the MSC is to provide ocean transportation of equipment, fuel, supplies and ammunition to sustain U.S. forces worldwide during peacetime and in war.

The MSC has dual reporting responsibilities to the DON and to the United States Transportation Command (USTRANSCOM). As a working capital fund, MSC supports three separate and distinct ship programs:

- The Naval Fleet Auxiliary Force (NFAF) provides support using civilian mariner manned noncombatant ships for material support;
- Special Mission Ships (SMS) provides unique seagoing platforms; and,
- Afloat Pre-positioning Ships – Navy (APF-N) provides deployment of advance material for strategic lifts.



During a war, more than 95 percent of all the equipment and supplies needed to sustain the U.S. military are carried by sea.

— MSC Mission and Vision





# Department of the Navy



MSC ships are unique as compared to other US Navy ships in that:

- they are non-combatant;
- they include both government-owned and chartered vessels; and
- they are crewed primarily by civilian mariners from the US Civil Service and from private operating companies.

## Transportation Net Cost of Operations (\$ in thousands)

	FY 2002	Restated FY 2001	FY 2001
Earned Revenue	\$1,518,664	\$1,337,799	\$1,337,799
Program Costs	1,387,148	1,696,422	1,696,422
Net Cost of Operations	\$ 131,516	\$(358,623)	\$(358,623)

## Performance Indicators

As one of the primary logistical support mechanisms during war, it is critical that the MSC meet its availability goals to support a Naval force that is armed and ready to react. MSC has a history of maintaining a more than 96% readiness in all vessel categories in the past three years. This measurement is based in "goal days", which is the number of days for a ship to be available multiplied by the number of ships in the program. The availability measures the days the ships are actually available to perform the mission to which they are assigned against the planned number of available days.

	Goal (days)	Actual (days)	Actual Days to Goal Days (%)
<b>Naval Fleet Auxiliary Force</b>			
FY 2002	24,091	24,212	100.5%
FY 2001	22,020	22,017	100.0%
FY 2000	21,594	21,329	98.8%
<b>Afloat Pre-positioning - Navy</b>			
FY 2002	6,020	6,020	100.0%
FY 2001	5,842	5,689	97.4%
FY 2000	5,673	5,605	98.8%
<b>Special Mission Ships</b>			
FY 2002	10,128	10,142	100.1%
FY 2001	9,942	9,630	96.9%
FY 2000	9,785	9,445	96.5%

## Base Support

The Base Support business area provides the support to maintain the land-based installations for our globally deployed Navy and Marine Corps through two primary activities: Naval Facilities Engineering Service Center (NFESC) and Public Works Centers (PWC).

The NFESC provides engineering, design, construction, technology implementation, and management support worldwide to shore, ocean, and waterfront activities and to amphibious and expeditionary operations. Responsibilities range from providing shore establishment physical security to environmental waste management to energy conservation systems.



The mission of the PWCs is to provide the public works support and services to meet the diverse needs of their clients. The Navy PWCs provide utilities services, facilities maintenance, family housing services, transportation support, engineering services, and shore facilities planning support to afloat and ashore operating forces and other activities. In addition to providing base support to the Navy and Marine Corps, the PWC's also provide support to other federal and nonfederal entities including the Coast Guard and the National Aeronautics and Space Administration.



### Base Support Net Cost of Operations (\$ in thousands)

	FY 2002	Restated FY 2001	FY 2001
Earned Revenue	\$ 1,691,934	\$ 1,482,617	\$ 1,482,617
Program Costs	1,654,492	1,663,708	1,663,708
Net Cost of Operations	\$ 37,442	\$ (181,091)	\$ (181,091)

### Performance Indicators

As new programs are added to the NFESC workload and the automation of manual processes continues, the number of indirect workyears required to support direct workyears has continued to decline reflecting an overall increase in productivity.

Productivity Ratio:  
FY 2002 74.1%  
FY 2001 71.7%  
FY 2000 67.5%

## Research & Development

Robust experimentation involving operational concepts, systems, platforms, organizations, and tactics is essential to transforming and leveraging our current forces while speeding the integration of new capabilities and new technologies. We are not waiting for the future. We are transforming how we fight today.

— Report of the Secretary of the Navy  
Annual Defense Report given to the  
Congress for FY 2002 by the  
Secretary of Defense

The Research & Development Activity Group explores the application of twenty-first century technology for the United States Naval forces dedicated to projecting U.S. power and influence from the sea, to shaping events ashore, and to maintaining the freedom of the seas. The NWCF Research & Development Activity Group is supported by the Naval Warfare Centers and the Naval Research Laboratory.

The Naval Warfare Centers operate the Navy's full spectrum of research, development, test and evaluation, engineering and fleet support to the surface, undersea, and air combat forces, as well as the DON's command, control and communication network. Following is a brief description of each of the warfare centers leadership areas that effectively optimizes overall coverage and support.

# Department of the Navy

**Naval Surface Warfare Center (NSWC)** – The NSWC specializes in ship hull, mechanical, and electrical systems, surface ship combat systems, coastal warfare systems, and other offensive and defensive systems associated with surface warfare.

**Naval Undersea Warfare Center (NUWC)** – The NUWC specializes in submarines, autonomous underwater systems, and offensive and defensive weapons systems associated with undersea warfare.

**Naval Air Warfare Center (NAWC)** – The NAWC specializes in engines, avionics, and aircraft support systems, ship/shore/air operations, weapons systems associated with air warfare, missiles, and missile subsystems, aircraft weapons integration, and airborne electronics warfare systems. The center also operates the department’s air, land, and sea test ranges.

**Space and Naval Warfare Systems Centers (SSCs)** – The SSCs specialize in command, control, and communication systems and ocean surveillance, and the integration of those systems that overarch multiple platforms.

The **Naval Research Laboratory (NRL)** is the DON’s principal R&D activity. It operates as a full-spectrum corporate laboratory, conducting a broadly based multidisciplinary program of scientific research and advanced technological development. Research and development is principally directed toward maritime applications of new and improved materials, techniques, equipment, systems and ocean, atmospheric, and space sciences and related technologies.



## Research & Development Net Cost of Operations (\$ in thousands)

	FY 2002	Restated FY 2001	FY 2001
Earned Revenue	\$ 9,470,297	\$ 7,731,223	\$ 7,731,223
Program Costs	9,158,581	9,193,314	9,193,314
Net Cost of Operations	\$ 311,716	\$ (1,462,091)	\$ (1,462,091)

## Supply Management

The Supply Management business area is distinctly different from the other NWCF business areas previously discussed. Instead of recovering costs through stabilized rates, the Supply Management business area recovers its cost through a “cost recovery rate”. The cost recovery rate encompasses different elements of operating costs that are then added to the acquisition cost of an item to establish a standard selling price. The two activities that comprise the Supply Management business area are Supply Management-Navy and Supply Management-Marine Corps.







The Navy and Marine Corps Supply Management activities provide a means of managing, controlling, financing and accounting for the acquisition and sale of secondary spares, consumable and repair parts necessary to support weapon systems and associated equipment to a wide variety of DON activities and other government agencies.

### Supply Management Net Cost of Operations (\$ in thousands)

	FY 2002	Restated FY 2001	FY 2001
Earned Revenue	\$ 6,463,455	\$ 5,275,532	\$ 5,275,532
Program Costs	7,167,805	3,950,507	3,950,488
Net Cost of Operations	\$ (704,350)	\$ 1,325,025	\$ 1,325,044

The Naval Supply Information Systems Activity, formally the Navy Fleet Material Support Office within the Information Services business area, was transferred beginning in FY 2002 to the Supply Management – Navy activity. The FY 2001 Earned Revenue, Program Cost and Net Cost of Operations have been adjusted to reflect this organizational change for comparative purposes.



Department of the Navy

# GENERAL FUND PRINCIPAL STATEMENTS



## LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the Title 31, United States Code, Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.

## LIMITATIONS CONCERNING REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards (SFFAS) No. 6 to require the capitalization of military equipment (formerly National Defense Property, Plant and Equipment (ND PP&E)) for fiscal years 2003 and beyond and encouraged early implementation. Based on this, the Department terminated the reporting of quantities and condition of military equipment and will begin the process of capitalizing these assets on its Balance Sheet in FY 2002.



# General Fund Principal Statements

## Principal Statements

The FY 2002 Department of the Navy, General Fund Principal Financial Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B. The statements and related notes summarize financial information for individual funds and accounts within the General Fund for the fiscal year ending September 30, 2002.

The following statements are included in the Department of the Navy, General Fund Principal Statements:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement Budgetary Resources
- Combined Statement of Financing

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

The accompanying notes should be considered an integral part of the Principal Statements.



Department of Defense  
Department of the Navy  
**CONSOLIDATED BALANCE SHEET**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	<b>2002</b>	<b>Restated 2001</b>	<b>2001</b>
<b>ASSETS (Note 2)</b>			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	\$ 68,249,955	\$ 66,338,979	\$ 66,338,979
Investments (Note 4)	9,625	9,517	9,517
Accounts Receivable (Note 5)	742,467	1,042,814	1,042,814
Other Assets (Note 6)	67,081	47,170	47,170
Total Intragovernmental Assets	<u>69,069,128</u>	<u>67,438,480</u>	<u>67,438,480</u>
Cash and Other Monetary Assets (Note 7)	130,664	160,589	160,589
Accounts Receivable (Note 5)	2,799,887	1,682,230	1,682,230
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	33,003,595	36,295,749	61,061,553
General Property, Plant and Equipment (Note 10)	26,109,437	24,961,487	24,961,487
Other Assets (Note 6)	4,780,462	6,056,832	6,056,832
<b>TOTAL ASSETS</b>	<u>\$ 135,893,173</u>	<u>\$ 136,595,367</u>	<u>\$ 161,361,171</u>
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 748,279	\$ 1,002,282	\$ 1,002,282
Debt (Note 13)	127	61	61
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	3,489,503	2,549,550	1,066,185
Total Intragovernmental Liabilities	<u>4,237,909</u>	<u>3,551,893</u>	<u>2,068,528</u>
Accounts Payable (Note 12)	1,510,329	2,075,026	2,075,026
Military Retirement Benefits and Other Employment- Related Actuarial Liabilities (Note 17)	1,546,375	1,595,890	1,595,890
Environmental Liabilities (Note 14)	15,469,073	15,584,458	15,584,458
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	4,185,487	3,610,899	3,610,899
<b>TOTAL LIABILITIES</b>	<u>\$ 26,949,173</u>	<u>\$ 26,418,166</u>	<u>\$ 24,934,801</u>
<b>NET POSITION</b>			
Unexpended Appropriations (Note 18)	64,774,328	63,535,842	61,982,518
Cumulative Results of Operations	44,169,672	46,641,359	74,443,852
<b>TOTAL NET POSITION</b>	<u>\$ 108,944,000</u>	<u>\$ 110,177,201</u>	<u>\$ 136,426,370</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 135,893,173</u>	<u>\$ 136,595,367</u>	<u>\$ 161,361,171</u>

The accompanying notes are an integral part of these financial statements.



# General Fund Principal Statements

Department of Defense

Department of the Navy

## CONSOLIDATED STATEMENT OF NET COST

For the years ended September 30, 2002 and 2001

(\$ in thousands)

	2002	Restated 2001	2001
<b>Program Costs</b>			
Intragovernmental Gross Costs	\$ 29,911,090	\$ 26,953,769	\$ 26,953,769
(Less: Intragovernmental Earned Revenue)	(1,209,933)	(2,460,197)	(2,460,197)
Intragovernmental Net Costs	<u>28,701,157</u>	<u>24,493,572</u>	<u>24,493,572</u>
Gross Costs With the Public	75,636,019	72,044,614	72,044,614
(Less: Earned Revenue From the Public)	(1,721,649)	(1,229,404)	(1,229,404)
Net Costs With the Public	<u>73,914,370</u>	<u>70,815,210</u>	<u>70,815,210</u>
Total Net Cost	102,615,527	95,308,782	95,308,782
<b>Costs Not Assigned to Programs</b>	0	0	0
<b>(Less: Earned Revenue Not Attributable to Programs)</b>	0	0	0
<b>Net Costs of Operations</b>	<u>\$ 102,615,527</u>	<u>\$ 95,308,782</u>	<u>\$ 95,308,782</u>



Department of Defense  
Department of the Navy

## CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2002 and 2001

(\$ in thousands)

	2002 Cumulative Results of Operations	2002 Unexpended Appropriations	Restated 2001 Cumulative Results of Operations
<b>Beginning Balances</b>	\$ 46,641,359	\$ 63,535,842	\$ 43,816,182
Prior period adjustments (+/-)	0	0	4,039,166
<b>Beginning Balances, as adjusted</b>	<u>\$ 46,641,359</u>	<u>\$ 63,535,842</u>	<u>\$ 47,855,348</u>
<b>Budgetary Financing Sources:</b>			
Appropriations Received	0	99,524,458	0
Appropriations transferred in/out (+/-)	0	2,727,308	0
Other adjustments (recisions, etc) (+/-)	0	(1,363,575)	0
Appropriations used	99,612,675	(99,649,705)	93,245,566
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	5,871	0	358,769
Imputed financing from costs absorbed by others	525,294	0	490,458
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<u>100,143,840</u>	<u>1,238,486</u>	<u>94,094,793</u>
<b>Net Cost of Operations (+/-)</b>	102,615,527	0	95,308,782
<b>Ending Balances</b>	<u>\$ 44,169,672</u>	<u>\$ 64,774,328</u>	<u>\$ 46,641,359</u>



The accompanying notes are an integral part of these financial statements. See notes 1 and 20.

# General Fund Principal Statements

Department of Defense  
Department of the Navy

## CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2002 and 2001

(\$ in thousands)

	Restated 2001 Unexpended Appropriations	2001 Cumulative Results of Operations	2001 Unexpended Appropriations
<b>Beginning Balances</b>	\$ 64,902,672	\$ 43,816,182	\$ 64,902,672
Prior period adjustments (+/-)	1,553,324	31,841,659	0
<b>Beginning Balances, as adjusted</b>	<u>66,455,996</u>	<u>75,657,841</u>	<u>64,902,672</u>
<b>Budgetary Financing Sources:</b>			
Appropriations Received	(2,920,154)	0	(2,920,154)
Appropriations transferred in/out (+/-)	0	0	0
Other adjustments (recisions, etc) (+/-)	0	0	0
Appropriations used	0	93,245,566	0
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	358,769	0
Imputed financing from costs absorbed by others	0	490,458	0
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<u>(2,920,154)</u>	<u>94,094,793</u>	<u>(2,920,154)</u>
<b>Net Cost of Operations (+/-)</b>	0	95,308,782	0
<b>Ending Balances</b>	<u>\$ 63,535,842</u>	<u>\$ 74,443,852</u>	<u>\$ 61,982,518</u>



Department of Defense  
Department of the Navy  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the years ended September 30, 2002 and 2001  
(\$ in thousands)

	2002 Budgetary Financing Accounts	Restated 2001 Budgetary Financing Accounts	2001 Budgetary Financing Accounts
<b>BUDGETARY RESOURCES</b>			
Budget Authority:			
Appropriations Received	\$ 99,561,202	\$ 94,848,409	\$ 94,848,409
Borrowing Authority	0	0	0
Contract Authority	0	0	0
Net transfers (+/-)	2,676,247	387,346	387,346
Other	0	0	0
Unobligated Balance:			
Beginning of period	13,835,827	13,624,084	13,624,084
Net transfers, actual (+/-)	51,061	365,723	365,723
Anticipated Transfers Balances	0	0	0
Spending Authority from Offsetting Collections:			
Earned			
Collected	6,489,963	4,878,546	4,878,546
Receivable from Federal sources	(263,453)	915,971	915,971
Change in unfilled customer orders			
Advances received	1,286	4,165	4,165
Without advance from Federal sources	186,518	(201,723)	(201,723)
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	6,414,314	5,596,959	5,596,959
Recoveries of prior year obligations	2,286,834	3,277,598	3,277,598
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(1,399,956)	(1,773,918)	(1,773,918)
<b>Total Budgetary Resources</b>	<b>\$ 123,425,529</b>	<b>\$ 116,326,201</b>	<b>\$ 116,326,201</b>



# General Fund Principal Statements

Department of Defense  
Department of the Navy

## COMBINED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2002 and 2001

(\$ in thousands)

	2002 Budgetary Financing Accounts	Restated 2001 Budgetary Financing Accounts	2001 Budgetary Financing Accounts
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred:			
Direct	\$ 99,307,751	\$ 95,682,240	\$ 95,682,240
Reimbursable	12,208,795	6,807,699	6,807,699
Subtotal	<u>111,516,546</u>	<u>102,489,939</u>	<u>102,489,939</u>
Unobligated balance:			
Apportioned	10,590,567	12,391,407	12,391,407
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	<u>1,318,416</u>	<u>1,444,855</u>	<u>1,444,855</u>
<b>Total, Status of Budgetary Resources</b>	<u><u>123,425,529</u></u>	<u><u>116,326,201</u></u>	<u><u>116,326,201</u></u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>			
Obligated Balance, Net-beginning of period	\$ 52,333,850	\$ 48,385,598	\$ 48,385,598
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, net-end of period:			
Accounts Receivable	(2,109,374)	(2,372,828)	(2,372,828)
Unfilled customer order from Federal sources	(2,027,193)	(1,840,675)	(1,840,675)
Undelivered Orders	55,633,755	50,942,279	50,942,279
Accounts Payable	4,603,000	5,604,765	5,604,765
Outlays:			
Disbursements	105,540,310	94,550,149	94,550,149
Collections	(6,491,249)	(4,882,711)	(4,882,711)
Subtotal	<u>99,049,061</u>	<u>89,667,438</u>	<u>89,667,438</u>
Less: Offsetting receipts	(213,345)	0	0
<b>Net Outlays</b>	<u><u>\$ 98,835,716</u></u>	<u><u>\$ 89,667,438</u></u>	<u><u>\$ 89,667,438</u></u>



Department of Defense  
Department of the Navy

## COMBINED STATEMENT OF FINANCING

For the years ended September 30, 2002 and 2001

(\$ in thousands)

### Resources Used to Finance Activities:

#### Budgetary Resources Obligated

##### Obligations Incurred

Less: Spending Authority from offsetting collections and recoveries (-)

Obligations net of offsetting collections and recoveries

Less: Offsetting receipts (-)

Net obligations

#### Other Resources

Donations and forfeitures of property

Transfers in/out without reimbursement (+/-)

Imputed financing from costs absorbed by others

Other (+/-)

Net other resources used to finance activities

#### Total resources used to finance activities

	2002	Restated 2001	2001
\$ 111,516,546	\$ 102,489,939	\$ 102,489,939	
(8,701,148)	(8,874,558)	(8,874,558)	
102,815,398	93,615,381	93,615,381	
(213,345)	(22,039)	(22,039)	
102,602,053	93,593,342	93,593,342	
0	0	0	
0	353,201	353,201	
525,294	490,458	490,458	
0	0	0	
525,294	843,659	843,659	
\$ 103,127,347	\$ 94,437,001	\$ 94,437,001	

### Resources Used to Finance Items not Part of the Net Cost of Operations:

Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided

Undelivered orders (-)

Unfilled Customer Orders

Resources that fund expenses recognized in prior periods

Budgetary offsetting collections and receipts that do not affect Net Cost of Operations

Resources that finance the acquisition of assets

Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations

Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)

Other (+/-)

#### Total resources used to finance items not part of the Net Cost of Operations

#### Total resources used to finance the Net Cost of Operations

\$ (10,676,267)	\$ (142,028)	\$ (142,028)	
187,805	(197,557)	(197,557)	
(620,162)	(65,407)	(65,407)	
0	0	0	
7,487,846	(656,355)	(656,355)	
0	0	0	
0	0	0	
0	0	0	
(3,620,778)	(1,061,347)	(1,061,347)	
\$ 99,506,569	\$ 93,375,654	\$ 93,375,654	

The accompanying notes are an integral part of these financial statements. See notes 1 and 22.





# General Fund Principal Statements

Department of Defense  
Department of the Navy

## COMBINED STATEMENT OF FINANCING

For the years ended September 30, 2002 and 2001

(\$ in thousands)

### Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Periods:

	2002	Restated 2001	2001
Increase in annual leave liability	\$ 263,070	\$ 0	\$ 0
Increase in environmental and disposal liability	595,543	0	0
Upward/Downward reestimates of credit subsidy expense	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0
Other (+/-)	117,595	1,186,410	1,186,410
Total components of Net Cost of Operations that will require or generate resources in future periods	976,208	1,186,410	1,186,410

Components not Requiring or Generating Resources:

Depreciation and amortization	916,360	714,583	714,583
Revaluation of assets and liabilities (+/-)	(1,684,366)	0	0
Other (+/-)	2,900,756	32,135	32,135
Total components of Net Cost of Operations that will not require or generate resources	\$ 2,132,750	\$ 746,718	\$ 746,718

### Total components of Net Cost of Operations that will not require or generate resources in the current period

### Net Cost of Operations

\$ 3,108,958	\$ 1,933,128	\$ 1,933,128
\$ 102,615,527	\$ 95,308,782	\$ 95,308,782





Department of the Navy

# GENERAL FUND NOTES TO THE PRINCIPAL STATEMENTS





## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of Presentation.

These financial statements have been prepared to report the financial position and results of operations of the Department of Navy (DON), as required by the "Chief Financial Officers (CFO) Act of 1990", expanded by the "Government Management Reform Act (GMRA) of 1994", and other appropriate legislation. The financial statements have been prepared from the books and records of DON in accordance with the "Department of Defense Financial Management Regulation" (DoD FMR), the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and to the extent possible, Federal Generally Accepted Accounting Principles (GAAP). The accompanying financial statements account for all resources for which DON is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. DON's financial statements are in addition to the financial reports also prepared by DON pursuant to OMB directives that are used to monitor and control DON's use of budgetary resources.

DON is unable to fully implement all elements of Federal GAAP and the OMB Bulletin No. 01-09 due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for DON's major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, DON cannot currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. DON continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems. A more detailed explanation of these financial statement elements is provided in the applicable footnote.

### B. Mission of the Reporting Entity.

DON was created on 30 April 1798 by an act of Congress (1 Stat. 533; 5 U.S.C. 411-12). The overall mission of DoD, as stated in the FY 2002 Annual Defense Report is to assure allies and friends, dissuade future military competition, deter threats and coercion against U.S. interests, and defeating adversaries if deterrence fails. Fiscal Year (FY) 2002 represents the seventh year that DON has prepared audited financial statements as required by the CFO Act and the GMRA.

### C. Appropriations and Funds.

DON's appropriations and funds are divided into the general, working capital (revolving funds), trust, special, and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing DON's missions.

- General funds are used for financial transactions arising under Congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.
- Revolving funds receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The National Defense Sealift Fund is DON's only revolving fund.
- Trust funds represent the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.

# General Fund Notes to the Principal Statements

- Special funds account for receipts of the government that are earmarked for a specific purpose.
- Deposit funds generally are used to (1) hold assets for which DON is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

The asset accounts used to prepare the statements are categorized as either entity or nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

## Entity Accounts:

### General Funds

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps
17X0810	Environmental Restoration, Navy
17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps
17 1205	Military Construction, Navy
17 1235	Military Construction, Naval Reserve
17X1236	Payments to Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17 1319	Research, Development, Test, and Evaluation, Navy
17 1405	Reserve Personnel, Navy
17 1453	Military Personnel, Navy
17 1506	Aircraft Procurement, Navy
17 1507	Weapons Procurement, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps
17 1611	Shipbuilding and Conversion, Navy
17 1804	Operation and Maintenance, Navy
17 1806	Operation and Maintenance, Navy Reserve
17 1810	Other Procurement, Navy

### Revolving funds

17 4557	National Defense Sealift Fund, Navy
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### Trust funds

17X8423	Midshipmen Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ship Stores Profits, Navy
17X8733	United States Naval Academy General Gift Fund

### Special funds

17X5095	Wildlife Conservation, etc., Military Reservations, Navy
17X5185	Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account



**Non Entity Accounts:****Special funds (Receipt Accounts)**

17 3041	Recoveries Under the Foreign Military Sales Program
17 3210	General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified

**Deposit funds**

17X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
17X6002	Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Navy
17X6025	Pay of the Navy, Deposit Fund
17X6026	Pay of the Marine Corps
17X6050	Employee Payroll Allotment Account (U.S. Bonds)
17X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues, Navy
17X6083	Withheld Allotment of Compensation for Charitable Contributions, Navy
17X6134	Amounts Withheld for Civilian Pay Allotments, Navy
17X6275	Withheld State and Local Income Taxes
17X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
17X6705	Civilian Employees Allotment Account, Navy
17X6706	Commercial Communication Service, Navy
17 6763	Gains and Deficiencies on Exchange Transactions, Navy (fiscal year)
17X6850	Housing Rentals, Navy
17X6875	Suspense, Navy
17X6999	Accounts Payable, Check Issue Underdrafts, Navy

**D. Basis of Accounting.**

DON generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2002, DON's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of DON's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP. DON has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Government Standard General Ledger (USSGL). Until such time as all of DON's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, DON's financial data will be based on budgetary transactions (obligations, disbursements, and collections), and transactions from nonfinancial feeder systems, adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. However, when possible, the financial statements are presented on the accrual basis of accounting as required. One example of information presented on the budgetary basis is the data on the Statement on Net Cost. Much of this information is based on obligations and disbursements and may not always represent accrued costs.

In addition, DON identifies programs based upon the major appropriation groups provided by Congress. DON is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.



# General Fund Notes to the Principal Statements

## **E. Revenues and Other Financing Sources.**

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multiyear basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. DON recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Revenue is recognized when earned under the reimbursable order process.

## **F. Recognition of Expenses.**

For financial reporting purposes, DON policy requires the recognition of operating expenses in the period incurred. However, because DON's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses in DON's operations until depreciated in the case of Property, Plant and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made.

Operating expenses were adjusted as a result of elimination of balances between DoD components. See Note 19.I, Intragovernmental Expenses and Revenue for disclosure of adjustment amounts.

## **G. Accounting for Intragovernmental Activities.**

DON, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to DON as though the agency was a stand-alone entity.

DON's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. DON's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

DON's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. DON funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). DON recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

DoD reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. DoD recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization General Fund column of the DoD Agency-wide consolidating/combining statements.





To prepare reliable financial statements, transactions occurring between components or activities within DON must be eliminated. However, DON, as well as the rest of the federal government, cannot accurately identify all intragovernmental transactions by customer. The Defense Finance and Accounting Services (DFAS) is responsible for eliminating transactions between components or activities of DON. For FY 1999 and beyond seller entities within DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DoD intragovernmental balances were then eliminated.

The Department of the Treasury, Financial Management Services (FMS) is responsible for eliminating transactions between DoD and other federal agencies. In September 2000, the FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." DoD was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. DON, however, was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide" as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from the United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DOL), and benefit program transactions with the OPM.

#### **H. Transactions with Foreign Governments and International Organizations.**

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of this Act, DoD has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

#### **I. Funds with the U.S. Treasury.**

DON'S financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the DFAS, Military Services, and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between DON's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at Note 3. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

#### **J. Foreign Currency.**

DON conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operations and maintenance, and family housing construction.) The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified.

# General Fund Notes to the Principal Statements

## **K. Accounts Receivable.**

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. Material disclosures are provided at Note 5.

## **L. Loans Receivable.**

Not applicable.

## **M. Inventories and Related Property.**

DON manages and reports Operating Materials & Supplies (OM&S), which consists of spare and repair parts, and ammunition and munitions that are not held for sale. OM&S are reported in numerous systems using different valuation methodologies. Some systems utilize the standard price methodology while others use actual cost. DoD uses various methods because its logistics systems were designed for material management rather than accounting. The systems provide accountability and visibility over OM&S, however, they do not maintain the historical cost data necessary to comply with the SFFAS No. 3, "Accounting for Inventory and Related Property." Neither can they directly produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208).

DoD uses the consumption method of accounting for OM&S, for the most part, expensing material when it is issued to the end user. Where current systems cannot fully support the consumption method, DoD uses the purchase method - that is, expensed when purchased. For FY 2002, DoD reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

SFFAS No. 3 "Accounting For Inventory And Related Property" distinguishes between "OM&S held for use" and "OM&S held in reserve for future use." There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. DON holds material based on military need and support for contingencies. Therefore, DON does not attempt to account separately for items held for "current" or "future" use.

DoD implemented new policy in FY 2002 to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." The net value of condemned material is zero, because the costs of disposal are greater than the potential scrap value. Potentially redistributable material, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in "Held for Use" or "Held for Repair" categories according to its condition.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Material disclosures related to inventory and related property are provided at Note 9.



**N. Investments in U.S. Treasury Securities.**

Investments in U.S. Treasury securities are reported at cost, net of unamortized premiums or discounts. Premium or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other methods if similar results are obtained. DON's intent is to hold investments to maturity; unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities. Material disclosures are provided at Note 4.

**O. General Property, Plant and Equipment.**

General PP&E, exclusive of Military Equipment, is capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. Also, improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E, exclusive of Military Equipment, are required to be capitalized. All General PP&E, other than land and Military Equipment, is depreciated on a straight-line basis. Land is not depreciated. The cost of Military Equipment acquisition programs is depreciated on a composite or group basis over the estimated useful life of the items in the group. Group depreciation is where an average rate of depreciation is applied to a number of homogeneous assets, as characterized by similar characteristics and service lives. Composite depreciation is where an average or composite rate of depreciation is applied to a number of heterogeneous assets having dissimilar characteristics and service lives.

In June 2002 the Federal Accounting Standards Advisory Board issued a standard entitled "Eliminating the Category National Defense Property, Plant, and Equipment (ND PP&E)". In addition to eliminating the category ND PP&E, this standard rescinded SFFAS No. 11, "Amendment to Property, Plant, and Equipment – Definitional Changes"; amended SFFAS No. 8, "Supplementary Stewardship Reporting"; and amended SFFAS No. 6, "Accounting for Property, Plant, and Equipment". This standard is effective for years ending after September 30, 2002. The standard is currently sitting before Congress for a 45-day period in accordance with provisions of the CFO Act of 1990.

Prior standards provided for the expensing of ND PP&E when costs were incurred and the reporting of such costs as supplementary stewardship information. In addition, prior standards provided for reporting of ND PP&E condition and deferred maintenance information. DoD has not reported the cost of ND PP&E in accordance with prior standards due to an absence of detailed cost information for property acquired over many decades.

The standard on eliminating the category of ND PP&E provides for the capitalization of property previously defined as ND PP&E and the reporting of such property as General PP&E. In recognition of the absence of detailed historical cost information, this standard provides that "If obtaining initial historical cost is not practical, estimated historical cost may be used. Other information such as but not limited to budget, appropriation, or engineering documents and other reports reflecting amounts expended may be used as the basis for estimating historical cost." The standard acknowledges that imprecision may result from the use of estimates or other information.

DON is implementing this standard through a "phased" approach. Capitalization of property previously defined as ND PP&E will take several years because of the extensive research needed to develop cost estimates for the extensive property inventory. Therefore, DON cannot fully implement the standard on its effective date.

The first "phase" consists of reporting values for one pilot program, the DDG 51 Arleigh Burke Class destroyer, in the fiscal year 2002 is disclosed in Note 10 to the financial statements. Each year as DON completes the valuation of additional programs, it will disclose the values of these programs in the notes. The estimated cost of this program is based on budget, appropriation, or engineering documents and other reports reflecting amounts expended.

# General Fund Notes to the Principal Statements

When it is in the best interest of the government, DON provides to contractors government property necessary to complete contract work. Such property is either owned or leased by DON, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on DON's Balance Sheet. DoD completed a study that indicates that the value of General PP&E above the DoD capitalization threshold and not older than the DoD Standard Recovery Periods for depreciation, and that is presently in the possession of contractors, is not material to DoD's financial statements. Regardless, DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, DON currently reports only government property in the possession of contractors that is maintained in DON'S property systems.

To bring DON into fuller compliance with federal accounting standards, DoD has issued new property accountability and reporting regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards. Material disclosures are provided at Note 10.

DON is participating in the Office of the Secretary of Defense (OSD) working group that is currently examining issues related to Internal Use Software. As of the date these statements were prepared, OSD had not determined the final reporting requirements for Internal Use Software. To ensure that the costs associated with Internal Use Software are correctly recognized and reported, DON will use its personal property system to capture this information once OSD adopts permanent reporting requirements.

## **P. Advances and Prepayments.**

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

## **Q. Leases.**

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) and the value equals or exceeds the current DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor, or the assets fair value. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses as payments are made over the lease term.



**R. Other Assets.**

DON conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, DON provides financing payments. One type of financing payment that DON makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net. In addition, based on the provision of the Federal Acquisition Regulation (FAR), DON makes financing payments under fixed price contracts that are not based on a percentage of completion. DON reports these payments as advances or prepayments in the "Other Assets" line item. DON treats these payments as advances or prepayment because DON becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, DON is not obligated to reimburse the contractor for its costs and the contractor is liable to repay DON for the full amount of the advance. DoD has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; FAR Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, "Prompt Payment." DON has concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

**S. Contingencies and Other Liabilities.**

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to DON. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. DON's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents, medical malpractice, property or environmental damages, and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for DON's assets. This type of liability has two components: nonenvironmental and environmental. Recognition of an anticipated environmental disposal liability commences when the asset is placed into service, consistent with SFFAS No. 6, "Accounting for Property, Plant, and Equipment." Based upon DON's policies and consistent with SFFAS No. 5 "Accounting for Liabilities of Federal Government," a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. DoD has agreed to the recognition of nonenvironmental disposal liability for nuclear powered assets when the asset is placed in service. Such amounts are developed in conjunction with and not easily identifiable separately from environmental disposal costs. Material disclosures are provided at Notes 14 and 15.

**T. Accrued Leave.**

Civilian annual leave and military leave that has been accrued and not used as of the balance sheet date are reported as liabilities. The liability reported at the end of the fiscal year reflects the current pay rates.



# General Fund Notes to the Principal Statements

## **U. Net Position.**

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the balances that result from subtracting expenses and losses from financing sources including appropriations, revenue, and gains since the inception of the activity. Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

## **V. Treaties for Use of Foreign Bases.**

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. The DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements are retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by DoD. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any non-retrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

## **W. Comparative Data.**

In FY 2002, DON modified the financial statement presentation for the Statements of Net Cost, Changes in Net Position, and Financing. As a result, DON's statements during this reporting period may not always lend themselves to comparative analysis. In some instances, amounts on the statements were reported on one financial line in FY 2001 and split into multiple financial lines for FY 2002, in accordance with OMB's guidance.

## **X. Unexpended Obligations.**

DON records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods or services have yet to be delivered.

## **Y. Data Collection Approach.**

DON financial statements include information from both financial systems and non-financial feeder systems. The Defense Finance Accounting Service Cleveland Center (DFAS-CL) collects the financial system information and incorporates it into the financial statements. DON collects financial information from non-financial feeder systems through a data call process and submits it to DFAS-CL for incorporation into the financial statements. For FY 2002, DON utilized a web-based data collection instrument (DCI) that captures all required financial information from non-financial feeder systems for both the General Fund (GF) statements and Required Supplementary Stewardship Information (RSSI). This is the fourth year DON has used the DCI to collect non-financial feeder information. The DCI identifies the information requirements to the source provider, provides an audit trail, and integrates into the DFAS-CL financial statement preparation process.



## NOTE 2. NONENTITY AND ENTITY ASSETS

As of September 30,  
(Amounts in thousands)

	2002			2001
	Nonentity	Entity	Total	
<b>1. Intra-governmental Assets:</b>				
A. Fund Balance with Treasury	\$ 250,075	\$ 67,999,880	\$ 68,249,955	\$ 66,338,979
B. Investments	0	9,625	9,625	9,517
C. Accounts Receivable	0	742,467	742,467	1,042,814
D. Other Assets	0	67,081	67,081	47,170
E. Total Intra-governmental Assets	\$ 250,075	\$ 68,819,053	\$ 69,069,128	\$ 67,438,480
<b>2. Non-Federal Assets:</b>				
A. Cash and Other Monetary Assets	\$ 130,664	\$ 0	\$ 130,664	\$ 160,589
B. Accounts Receivable	2,460,546	339,341	2,799,887	1,682,230
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	33,003,595	33,003,595	61,061,553
E. General Property, Plant and Equipment	0	26,109,437	26,109,437	24,961,487
F. Other Assets	0	4,780,462	4,780,462	6,056,832
G. Total Non-Federal Assets	\$ 2,591,210	\$ 64,232,835	\$ 66,824,045	\$ 93,922,691
<b>3. Total Assets:</b>	<u>\$ 2,841,285</u>	<u>\$ 133,051,888</u>	<u>\$ 135,893,173</u>	<u>\$ 161,361,171</u>

### 4. Other Information Related to Nonentity and Entity Assets.

#### Assets are categorized as:

Entity assets consist of resources that DON has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity assets are assets held by an entity, but are not available for use in the operations of the entity.

#### Other DON Disclosures

##### Nonentity Assets.

As of 9/30/02, DON holds \$2,841,285 thousand nonentity assets. These assets are not available for use by DON in its day-to-day operations but DON maintains stewardship accountability and responsibility to report. There are three categories of significant nonentity assets held by DON: (1) the Nonentity Intragovernmental Fund Balance with Treasury, (2) Cash and Other Monetary Assets, and (3) the Nonentity Nonfederal Accounts Receivable.

##### Non-Entity Nonfederal Accounts Receivable (public).

Non-Entity Accounts Receivable with the public contains \$1,333,494 thousand (gross) in advance payments made to contractors and \$1,018,952 thousand in associated accrued interest for the A-12 aircraft program, which was subsequently cancelled and remains in litigation. These balances are being reported in Non-Entity Accounts Receivable since the original appropriation year has been cancelled, and any funds collected as a result of this litigation would not be available for DON's use in normal operations. See Note 5 for additional information.

#### For Additional Line Item discussion, see:

Note 3, Fund Balance with Treasury  
Note 4, Investments  
Note 5, Accounts Receivable  
Note 6, Other Assets



# General Fund Notes to the Principal Statements

## NOTE 3. FUND BALANCE WITH TREASURY

As of September 30,  
(Amounts in thousands)

### 1. Fund Balances:

- A. Appropriated Funds
- B. Revolving Funds
- C. Trust Funds
- D. Other Fund Types
- E. Total Fund Balances

2002	2001
\$ 66,480,155	\$ 65,459,616
1,491,480	665,726
15,995	14,033
262,325	199,604
<u>\$ 68,249,955</u>	<u>\$ 66,338,979</u>

### 2. Fund Balances Per Treasury Versus Agency:

- A. Fund Balance per Treasury
- B. Fund Balance per DON
- C. Reconciling Amount

\$ 68,249,955	\$ 66,338,979
68,249,955	66,338,979
<u>\$ 0</u>	<u>\$ 0</u>

### 3. Explanation of Reconciliation Amount:

Not applicable.

### 4. Other Information Related to Fund Balance with Treasury:

#### Additional Disclosures Concerning Fund Balance With Treasury (FBWT).

The following provides additional disclosures of amounts included in the FBWT reporting process. These are internal reconciliation mechanisms verifying the disbursing process. These differences may ultimately affect FBWT, but until they can be verified as valid transactions or amounts they are not considered differences between DON and Treasury FBWT. Many of these items represent timing differences, supporting identifying data is not or is no longer available or Treasury will not support the identification of certain aged items.

The increase in revolving fund balance from FY 2001 to FY 2002 is a result of an increase in the National Defense Sealift Fund, Navy (APPN 4557). Public Law (P.L.) 107-117 and 107-107 provided for a current year Fund transfer of \$360,800 thousand and P.L. 106-259 and 106-79 for a total of \$764,000 thousand prior year transfer in the revolving fund, National Defense Sealift Fund, Navy.

The non-entity Fund Balance with the Treasury (FBWT) balance contributed to the increase in Other Fund Types. For example, within the Non-entity FBWT, the state and local taxes withheld account, \$24,200 thousand, civilian employees allotments account, \$20,000 thousand, and the military thrift savings plan, \$23,900 thousand contributed to the increase in FY 2002.

#### Intragovernmental Payment and Collection (IPAC).

The Intra-governmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts recorded by Treasury but not reported by the organization. As of the end of FY 2001, there was \$1,135 thousand difference in IPAC greater than 180-days old. DoD has worked with the DFAS sites, the Department of the Treasury, and a Treasury Department contractor in the development of automated tools, metrics and monthly reporting requirements that aided in reconciling the Treasury's Statement of Differences. These actions aided DON in clearing all of the old balances and established better internal controls over the IPAC process. As of the end of FY 2002 there were no IPAC differences greater than 60-days old.





The following table exhibits the aged IPAC differences:

**IPAC Differences – Aging**  
(Amounts in thousands)

	<u>Net Amount</u>	<u>Absolute Amount</u>
90 Days or Less	\$ 9,871	\$ 92,198
91-180 Days	0	0
181 Days and Over	0	0
Total	<u>\$ 9,871</u>	<u>\$ 92,198</u>

**Check Issue Discrepancy.**

DON is in the process of collecting information for all check issue discrepancy data that are unsupportable because: (1) records have been lost during deactivation of disbursing offices; (2) the Department of the Treasury may not assist in research efforts for transactions over 1-year old; or (3) corrections were processed for transactions that the Department of the Treasury had removed from the check comparison report. Transactions that have no supporting documentation due to one of the preceding situations, shall be provided to the Department of the Treasury with a request to remove them from the Treasury Check Comparison Report. The vast majority of the remaining check issue discrepancies are a result of timing differences between DON and the Department of the Treasury for processing checks. The following table exhibits the aged check issue differences:

**Check Issue Differences – Aging**  
(Amounts in thousands)

	<u>Net Amount</u>	<u>Absolute Amount</u>
0-30 Days	\$ 354,172	\$ 356,847
31-90 Days	17,947	39,772
91-180 Days	(2,958)	3,250
181-365 Days	0	4
Greater than 1 year	(5,172)	5,303
Total	<u>\$ 363,989</u>	<u>\$ 405,176</u>

**Deposit Differences.**

The Deposit differences are reconcilable differences that represent deposit amounts reported by the Department of the Treasury or the organization. As of September 30, FY 2002 and FY 2001, there was \$4 thousand and \$(201) thousand, respectively, of deposit differences greater than 180-days old.

The following table exhibits aged deposit differences as reported on the Treasury Statement of Differences:

**Statement of Differences – Aging**  
(Amounts in thousands)

	<u>Net Amount</u>	<u>Absolute Amount</u>
0-30 Days	\$ 21,145	\$ 24,783
31-60 Days	1,464	3,926
61-90 Days	(355)	533
91-120 Days	11	13
121-180 Days	100	102
181-365 Days	4	239
365 Days and Over	0	442
Total	<u>\$ 22,369</u>	<u>\$ 30,038</u>

# General Fund Notes to the Principal Statements

## Other DON Disclosures

To deal with reconciliation of check issue discrepancy and deposit differences that are aged 90 days or greater some of the following actions are being taken: (1) Follow-up action with disbursing officers on the status of their resolving transactions listed on their statement of differences; (2) Weekly teleconferences with the field sites and site visits; and (3) improving training.

**See Note Disclosure 1.I.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

## NOTE 4. INVESTMENTS

As of September 30,  
(Amounts in thousands)

	2002					2001
	Cost	Amortization Method	Amortized (Premium/Discount)	Investments, Net	Market Value Disclosure	Investments, Net
<b>1. Intragovernmental Securities:</b>						
A. Marketable	\$ 0		\$ 0	\$ 0	\$ 0	\$ 0
B. Non-Marketable, Par Value	0		0	0	0	0
C. Non-Marketable, Market-Based	9,671	N/A	(206)	9,465	9,465	9,317
D. Subtotal	\$ 9,671		\$ (206)	\$ 9,465	\$ 9,465	\$ 9,317
E. Accrued Interest	\$ 160		\$	160	\$ 160	\$ 200
F. Total Intragovernmental Securities	<u>\$ 9,831</u>		<u>\$ (206)</u>	<u>\$ 9,625</u>	<u>\$ 9,625</u>	<u>\$ 9,517</u>

## 2. Other Investments:

## 3. Other Information Related to Investments

## Other DON Disclosures

During FY 2001, per HR 4205, section 912, DON consolidated the Naval Academy Museum Fund together with the Naval Academy General Gift Fund and the Naval Records and History Fund together with the Navy General Gift Fund. The two remaining Trust Funds are the Naval Academy General Gift Fund and the Navy General Gift Fund, which have a total net investment of \$9,625 thousand. These investments are Non-Marketable Market-Based securities reported at cost, net of amortized premiums and discounts. The details for each Trust Fund are as follows:

(Amounts in thousands)

	Cost	Amortized [Premium]/Discount	Net
Navy General Gift Fund	\$ 2,313	\$ (30)	\$ 2,283
Naval Academy General Gift Fund	7,358	(176)	7,182
Total	<u>\$ 9,671</u>	<u>\$ (206)</u>	<u>\$ 9,465</u>

**See Note Disclosure 1.N.** – Investments in U.S. Treasury for additional DoD policies governing Investments in U.S. Treasury Securities.



## NOTE 5. ACCOUNTS RECEIVABLE

As of September 30,  
(Amounts in thousands)

	2002			2001
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intra-governmental Receivables:</b>	\$ 742,467	N/A	\$ 742,467	\$ 1,042,814
<b>2. Non-Federal Receivables (From the Public):</b>	\$ 2,940,843	\$ (140,956)	\$ 2,799,887	\$ 1,682,230
<b>3. Total Accounts Receivable:</b>	<u>\$ 3,683,310</u>	<u>\$ (140,956)</u>	<u>\$ 3,542,354</u>	<u>\$ 2,725,044</u>

### 4. Allowance Method

DON does not have a standard rate for the allowance for estimated uncollectible receivables. For all program groups except Military Personnel appropriations, DON estimate for uncollectible accounts is 2.93%. Accounts receivable uncollectible allowance balances in the Military Personnel appropriations are estimated to be 14.49%. Each estimate is based on write-offs of accounts receivable over the last three-year period.

### Fluctuations and/or Abnormalities

The decrease in the Accounts Receivable Intragovernmental is a result of a systems change request that has improved collecting the intragovernmental elimination data.

Accounts Receivable increased 29.9% or \$817,310 thousand from FY 2001 to FY 2002. The associated accrued interest for the A-12 aircraft program in the amount of \$1,018,952 thousand represents the increase in Non-federal receivable. Other factors affecting the balance changes in accounts receivable include the allocation of undistributed collections, elimination adjustments and abnormal account balances caused by the elimination process.

### 5. Other Information Related to Accounts Receivables:

#### Intragovernmental Accounts Receivable Adjustments

##### Allocation of Undistributed Collections

Undistributed disbursements and collections are allocated between federal and nonfederal categories based on the percentage of federal and nonfederal accounts payable and accounts receivable as submitted in the field level general ledgers. This allocation was suggested as appropriate in a DFAS Arlington memorandum dated 4 October 2000, which required disclosure to the audit community of the applicable methodology used to allocate undistributed.

##### Elimination Adjustments

DON's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, DON was unable to reconcile intragovernmental accounts receivable balances with its trading partners. DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

Intrafund transactions are eliminated based upon trading partner information obtained from the Bureau of Naval Personnel System (BUPERS), Standard Accounting and Reporting System – Field





# General Fund Notes to the Principal Statements

Level (STARS-FL), and the Standard Accounting and Reporting System – Headquarters Module (STARS-HQ). The elimination data obtained from these systems included seller appropriation, grantor (buyer appropriation, grantor subhead, grantor code, reimbursable source code, accounts receivable, revenue and unearned revenue.

## Nonentity Nonfederal Accounts Receivables

During FY 2002 Nonentity Nonfederal Accounts Receivable included refunds receivable accounted for by Mechanization of Contract Administration Services (MOCAS) and Defense Debt Management System (DDMS) and refunds due from contract carriers reported by the Judge Advocate General (JAG). The following table lists the MOCAS, DDMS, and JAG receivable balances:

(Amounts in thousands)

	<b>FY 2002 Nonentity Non-Federal Accounts Receivable (Gross)</b>
A-12 Program Advance (DDMS) and Interest	\$ 2,352,446
CDS/DDMS Navy and Defense Logistics Agency (DLA)	43,830
Contract (MOCAS) system debts	9,460
Penalties, Fines and Admin. Fees and Interest	5,666
JAG	3,954
Civilian Pay receivables	2,659

Included in DDMS (separately identified above) are unliquidated progress payments of \$1,333,494 thousand, and accrued interest receivable of \$1,018,952 thousand for the A-12 aircraft program that was subsequently cancelled and remains in litigation. The entire amount is reported in accordance with a 1994 General Accounting Office audit recommendation.

## Other DON Disclosures

### Abnormal Account Balances.

Abnormal Accounts Payable and Accounts Receivable balances may occur for two main reasons – 1) the application of undistributed disbursement/collections and 2) as a result of the intragovernmental transaction elimination process. DFAS Arlington has provided guidance in a memorandum dated 1 March 2001 to record accruals, for financial statement presentation purposes, to correct abnormal balances.

Undistributed disbursements/collections are recorded in Accounts Payable and Accounts Receivable, respectively. For a variety of reasons, the application of undistributed transactions may result in abnormal balances.

In accordance with the DoD FMR, Volume 6B, Chapter 13, adjustments are recorded, at the appropriation level, to bring DON's intragovernmental accounts into agreement with its trading partners' intragovernmental accounts. These elimination process adjustments may also result in abnormal Accounts Payable and Accounts Receivable.

**See Note Disclosure 1.K.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounts Receivable.



## NOTE 6. OTHER ASSETS

As of September 30,  
(Amounts in thousands)

	2002	2001
<b>1. Intra-governmental Other Assets:</b>		
A. Advances and Prepayments	\$ 67,081	\$ 47,170
B. Other Assets	0	0
C. Total Intra-governmental Other Assets	\$ 67,081	\$ 47,170
<b>2. Non-Federal Other Assets:</b>		
A. Outstanding Contract Financing Payments	\$ 4,609,272	\$ 5,873,494
B. Other Assets (With the Public)	171,190	183,338
C. Total Non-Federal Other Assets	\$ 4,780,462	\$ 6,056,832
<b>3. Total Other Assets:</b>	<u>\$ 4,847,543</u>	<u>\$ 6,104,002</u>
<b>4. Other Information Related to Other Assets:</b>		

### Fluctuation and/or Abnormalities

Advances and Prepayments increased \$19,911 thousand from FY 2001. Amounts are recorded based upon elimination data as provided by DON trading partners. Outstanding Contract Financing Payments decreased \$1,264,222 thousand from FY 2001. The decrease in Other Assets Nonfederal implies fewer contracts with contract financing payments and contracts maturing. These payments are determined by current level of funding, current status of projects under which these payments occur.

### Accounting Standards

#### Outstanding Contract Financing Payments.

DON has reported outstanding financing payments for fixed price contracts as an advance and prepayment, because under the terms of the fixed price contracts, DON becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, DON is not obligated to reimburse the contractor for its costs and the contractor is liable to repay DON for the full amount of the outstanding contract financing payments. DoD has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; FAR Parts 32,48, and 52; and the OMB guidance in 5 CFR Part 1315, "Prompt Payment." DON has concluded that the SFFAS No. 1, "Accounting for Selected Assets and Liabilities" does not fully or adequately addresses the subject of progress payment accounting and is considering what further action is appropriate. The following table displays the Outstanding Contract Financing Payments attributed by program:

(Amounts in millions)

	FY 2002
Aircraft Procurement	\$ 2,765
Shipbuilding and Conversion	567
Weapons Procurement	518
Other Procurement	625
Other (O&M, RDT&E)	134
Total	<u>\$ 4,609</u>



# General Fund Notes to the Principal Statements

## Advances and Prepayment

The buyer-side advances to others balances were adjusted to agree with seller-side advances from others on the books or other DoD reporting entities. Additionally, the buyer-side prepayment balances were adjusted to agree with seller-side deferred credits on the books of other DoD reporting entities.

**See Note Disclosure 1.R.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

## NOTE 7. CASH AND OTHER MONETARY ASSETS

As of September 30,  
Amounts in thousands)

1. Cash
2. Foreign Currency (non-purchased)
3. Other Monetary Assets
4. Total Cash, Foreign Currency, & Other Monetary Assets

	2002	2001
1. Cash	\$ 130,162	\$ 160,291
2. Foreign Currency (non-purchased)	502	298
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	<u>\$ 130,664</u>	<u>\$ 160,589</u>

5. Other Information Related to Cash and Other Monetary Assets

## Fluctuations and/or Abnormalities

The \$30,129 thousand cash balance decrease from FY 2001 to FY 2002 is due to the events on September 11, 2001. The Disbursing Officers (D.O.'s) at Atlantic Fleet, Pacific Fleet and Marine Corps had more cash on hand than necessary for their normal operational requirements. With the unknown impact of a national disaster close to FY2001 fiscal year end, the D.O.'s had more cash on hand to prevent disruption of their operations. Since then cash levels have returned to normal operating levels.

## Definitions

**Cash** – The total of cash resources under the control of DON, which includes coin, paper currency, purchased foreign currency, negotiable instruments, and amounts on deposit in banks and other financial institutions. Cash available for agency use should include petty cash funds and cash held in revolving funds which will not be transferred into the U.S. Government General Fund.

**Foreign Currency** – consists of the total U.S. dollar equivalent of non-purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account (formerly called FT accounts).

**Other Monetary Assets** - includes gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury.

## Restriction on Cash

All cash and other monetary assets reported are classified as nonentity, which means that the assets are not available for DON's use in normal operations.

## Other DON Disclosures

Cash and Foreign Currency reported consists primarily of cash held by Disbursing Officers to carry out their paying, collecting, and foreign currency accommodation exchange mission. The primary source of the amounts reported is the Standard Form 1219, Statement of Accountability reported by DoD Disbursing Officers.



DON translates foreign currency to U.S.dollars utilizing the Department of the Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursement and accommodation of exchange transactions.

**See Note Disclosure 1.J.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Foreign Currency.

## NOTE 8.A. DIRECT LOANS AND/OR LOAN GUARANTEE PROGRAMS

The DoD operates the following Direct Loan and/or Loan Guarantee Program:

### **Military Housing Privatization Initiative**

#### **Other Information Related to Direct Loan and/or Loan Guarantee Programs.**

The Military Housing Privatization Initiative (MHPI) fosters a mutually beneficial relationship between the DoD and the private sector. For the DoD, the MHPI results in the construction of more housing built to market standards, at a lower cost than through the military construction process. Commercial construction (Private Sector) is faster and less costly than military construction and significantly stretches and leverages the DoD's limited housing funds. The MHPI also provides protection against specific risks, such as base closure or member deployment, for the private sector partner.

An analysis of loans receivables, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the direct loans and loan guarantees is provided in the following sections of this note.

DoD operates a loan guarantee program authorized by the National Defense Authorization Act for FY 1996, Public Law 104-106 Stat. 186 Section 2801, includes a series of powerful authorities that allow DoD to work with the private sector to renovate military housing. DoD's goals are to:

- obtain private capital to leverage government dollars,
- make efficient use of limited resources, and
- use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers.

The Act also provides DoD with a variety of authorities to obtain private sector financing and expertise to improve military housing. DoD uses these authorities individually, or in combination. They include:

- guarantees, both loan and rental
- conveyance/leasing of existing property and facilities
- differential lease payments
- investments, both limited partnerships and stock/bond ownership
- direct loans

In addition, the "Federal Credit Reform Act of 1990" governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

- Direct loans - are reported net of allowance for subsidy at present value, and
- Loan Guarantee Liabilities - are reported at present value.



# General Fund Notes to the Principal Statements

## NOTE 9. INVENTORY AND RELATED PROPERTY, NET

As of September 30,  
(Amounts in thousands)

1. Inventory, Net (Note 9.A.)
2. Operating Materials & Supplies, Net (Note 9.B.)
3. Stockpile Materials, Net (Note 9.C.)
4. Total

	2002	2001
1. Inventory, Net (Note 9.A.)	\$ 0	\$ 0
2. Operating Materials & Supplies, Net (Note 9.B.)	33,003,595	61,061,553
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	<u>\$ 33,003,595</u>	<u>\$ 61,061,553</u>

## NOTE 9.A. INVENTORY, NET

Not applicable.

## NOTE 9.B. OPERATING MATERIALS AND SUPPLIES, NET

As of September 30,  
(Amounts in thousands)

### 1. OM&S Categories:

- A. Held for Use
- B. Held for Repair
- C. Excess, Obsolete, and Unservicable
- D. Total

	2002			2001	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	Valuation Method
A. Held for Use	\$ 27,307,223	\$ 0	27,307,223	\$ 58,175,833	LAC, SP, AC
B. Held for Repair	8,478,545	(3,260,744)	5,217,801	1,210,403	LAC, SP, AC
C. Excess, Obsolete, and Unservicable	1,101,108	(622,537)	478,571	1,675,317	LAC, SP, AC
D. Total	<u>\$ 36,886,876</u>	<u>\$ (3,883,281)</u>	<u>\$ 33,003,595</u>	<u>\$ 61,061,553</u>	

### Legend for Valuation Methods:

- Adjusted LAC = Latest Acquisition Cost adjusted for holding gains and losses  
 NRV = Net Realizable Value  
 SP = Standard Price  
 O = Other  
 AC = Actual Cost  
 MAC = Moving Average Cost





## 2. Restrictions on Operating Materials & Supplies:

None

### General Composition of Operating Materials and Supplies (OM&S)

OM&S includes spare and repair parts, ammunition, tactical missiles aircraft configuration pods, and centrally managed aircraft engines.

The general composition of OM&S is as follows:

(Amounts in thousands)

	<u>FY 2002</u>
Ammunition and Munitions	\$ 9,659,749
Appropriation Purchase Account (APA) Principal End Items	10,317,471
Sponsor Owned Material	9,814,710
APA Secondary Inventory	1,654,127
Residual Assets	1,288,052
Other	269,486
Total	<u>\$ 33,003,595</u>

### Balances

In addition to the account balances shown in Table 9.B., the SFFAS No.3, "Accounting for Inventory and Related Property" requires disclosure of the amount of OM&S held for "future use." This information is not captured by current OM&S systems which were designed for material management rather than accounting. However, DON major commands were able to identify approximately \$2,462,762 thousand of the OM&S held for use that will not be used within the next fiscal year.

### Decision Criteria For Identifying The Category To Which Operating Materials And Supplies Are Assigned

In order to standardize reporting of the categories Held for Use, Held for Repair, and Excess, Obsolete, Unserviceable, DON implemented the Under Secretary of Defense (Comptroller) (USD(C)) condition code crosswalk as defined in the memorandum "Accounting for Excess, Unserviceable, and Obsolete Inventory and Operating Materials and Supplies" dated 12 August 2002. OM&S was reported as follows:

OM&S Category	Condition Codes
Held for Use	A, B, C, D
Held for Repair	E, F, G, J, K, L, M, N, R
Excess, Obsolete, Unserviceable	P, H, S

On 15 September 2002, USD(C) amended the condition code crosswalk to include code "V" in the Excess, Obsolete, Unserviceable category. Because DON's reporting guidance had already been issued, this was not implemented for FY 2002. It will be implemented for FY 2003 reporting.

### Changes In The Criteria For Identifying The Category To Which Operating Materials And Supplies Are Assigned

The category "Held for Use" includes all issuable material. The category "Held for Repair" includes all economically repairable material. Before FY 2002, DON showed "Potentially redistributable" material, regardless of condition, as "Excess, Obsolete, and Unserviceable."

# General Fund Notes to the Principal Statements

## **Other Information Related to Operating Material and Supplies, Net**

### **Fluctuations and/or Abnormalities**

Operating Materials & Supplies Held for Use, Net decreased from \$58,175,833 thousand in FY 2001 to \$27,307,223 thousand in FY 2002, a total decrease of \$30,868,610 thousand. This decrease is primarily attributable to two audit adjustments. The first one is to remove \$24,765,804 thousand of tactical missiles and torpedoes that were previously reported as ammunition and munitions in FY 2001. The second one is to remove \$6,904,493 thousand of Mobile Facilities, Aviation Support Equipment, and Calibration Standards. These items were erroneously included in the OM&S values reported as of 9/30/01.

Operating Materials & Supplies Held for Repair, Net increased from \$1,210,403 thousand in FY 2001 to \$5,217,801 thousand in FY 2002, a total increase of \$4,007,398 thousand. The increase is mainly the result of DON's implementation of USD(C)'s policy regarding condition codes. Numerous condition codes reported as Excess, Obsolete, and Unserviceable in FY 2001 are being reported as "Held for Repair" in FY 2002. For FY 2001, the USSGL did not include an account for OM&S held for repair and the Office of Management and Budget (OMB) Bulletin 01-09, "Form and Content of Agency Financial Statements" did not provide for specific footnote disclosure of the OM&S held for repair. Recognizing that DoD holds OM&S in need of repair, the USSGL Board approved for use, beginning in FY 2002, USSGL account 1514, OM&S Held for Repair.

Excess, Obsolete, and Unserviceable, Net decreased from \$1,675,317 thousand in FY 2001 to \$478,571 thousand in FY 2002. As a result of USD(C)'s memorandum "Accounting for Excess, Unserviceable, and Obsolete Inventory and Operating Materials and Supplies" dated 12 August 2002, because the costs of disposal are greater than the potential scrap value, all OM&S reported in this category has been revalued to zero. The residual balance of \$478,571 reported as Excess, Obsolete, and Unserviceable Net represents a prior period adjustment that was recorded to adjust the general ledger balance to comply with current reporting requirements. DoD implemented new policy in FY 2002 to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." Potentially redistributable material, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in "Held for Use" or "Held for Repair" categories according to its condition.

### **Operating Materials & Supplies Prior Period Adjustment**

During FY 2001, early implementation of the exposure draft Statement of Federal Financial Accounting Standards (SFFAS) to eliminate the category National Defense Property, Plant, and Equipment (NDPP&E), military equipment, was encouraged. Consequently, DON reclassified conventional missiles and torpedoes from military equipment to operating materials and supplies and recognized a value of \$24,765,804 thousand on the Inventory and Related Property line of DON FY 2001 Financial Statements. Per the Department of Defense Inspector General (DoDIG) directive, DoD should not have implemented an exposure draft SFFAS early and therefore requested that the value for the conventional missiles and torpedoes be removed from FY 2001 and also not recognized in FY 2002. Therefore, a prior period adjustment removed \$24,765,804 thousand from FY 2001 Inventory and Related Property (Operating Materials and Supplies) and an adjusted amount of \$23,671,570 thousand for FY 2002. This restatement of FY 2001 values aligns DON's financial statement with the FY 2001 U.S. Government-wide financial statements.

### **Government Furnished Material (GFM) and Contractor Acquired Material (CAM)**

Generally, the value of DON's GFM and CAM in the hands of contractors is not included in the OM&S values reported above. DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information already in other existing logistics systems.







### **Other DON Disclosures**

The OM&S, including munitions not held for sale, are generally valued at standard purchase price. DoD uses the consumption method of accounting for OM&S, for the most part, expensing material when it is issued to the end user. Where current systems cannot fully support the consumption method, DoD uses the purchase method - that is, expensed when purchased. For FY 2002, DON reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

The OM&S data reported on the financial statements are derived from logistics systems designed for material management purposes. These systems do not maintain the historical cost data necessary to comply with the valuation requirements of the SFFAS No. 3, "Accounting for Inventory and Related Property." In addition, while these logistics systems provide management information on the accountability and visibility over OM&S items, they do not directly support the categorization of OM&S as held for use, held in reserve for future use, held for repair, or excess, obsolete, and unserviceable. The DoD manages only military or government specific material under normal circumstances. Material held for use includes material held due to operational economies. Similarly, material held for use includes material held due to a managerial determination that it should be retained to support departmental contingencies.

Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Further, unlike the commercial sector, DON's operational cycles, based on national need, are irregular. In addition, the military risks associated with stock-out positions (e.g., weapon systems that are not mission capable due to lack of supplies, are totally different from a commercial activity's risk of losing sales. Therefore, DON does not attempt to account separately for items held for "current" or "future" use.

The DoD, in consultation with its auditors, is: (1) developing specific criteria for determining when OM&S amounts are not significant for the purpose of using the consumption method, (2) developing functional requirements for feeder systems to support the consumption method, (3) identifying feeder systems that are used to manage OM&S items, and (4) developing plans to revise those systems to support the consumption method.

Effective July, 2001, the DoD adopted the moving average cost method of valuing inventory at all DoD components. Because DON's OM&S are derived from logistics systems designed for material management purposes, the moving average cost methodology has not been implemented for FY 2002.

### **Ammunition and Munitions.**

The Conventional Ammunition Integrated Management System (CAIMS) database does not meet all the requirements of the SFFAS No. 3, particularly regarding valuation at historical cost. DON has begun the analysis and cost benefit identification of making CAIMS compliant with Federal accounting standards.

### **Principal End Items.**

Principal End Items includes OM&S items such as shipboard hull, mechanical and electronic equipment, and uninstalled aircraft engines. Principal End Items are items of such importance that central inventory control is required. They normally possess one of the following characteristics: (a) essential for combat or training; (b) high dollar value; (c) difficult to procure or produce; or (d) critical basic materials or components.

### **Sponsor Owned Material (SOM).**

Per General Accounting Office (GAO) subject letter GAO-01-37R "Financial Management: Improvements Needed in the Navy's Reporting of General Fund Inventory" dated 27 October 2000 DON has been identifying and validating SOM to gain total asset visibility.

## General Fund Notes to the Principal Statements

### **Residual Assets.**

This material is considered excess to the owner, but may not be excess to the Navy. Standard price is used to value all stock-numbered items. Part-numbered items are valued by best available information. Residual assets increased from \$834,276 thousand in FY 2001 to \$1,288,052 thousand in FY 2002 as a result of the implementation of Re-engineered Residual Asset Management (RRAM) at Orange Park, FL and Cheatham Annex, VA.

### **Other Operating Material & Supplies.**

Other OM&S totaled \$269,486 thousand in FY 2002. This consists primarily of \$208,071 thousand in Fleet Hospitals and War Reserves, and \$53,639 thousand material in the possession of the US Coast Guard.

### **Fleet Hospitals and War Reserves.**

The Fleet Hospital Program is reporting a balance of \$208,071 thousand for FY 2002. This reflects a \$6,957 thousand increase from FY 2001. Per Naval Audit Service Audit No. N2001-0016, the subject Command has completed their review of the Fleet Hospital inventory valuation. This information was computed based on the best estimates available of the value of Fleet Hospitals inventory. This system will be used until the automated information system (AIS) becomes fully operational.

**See Note Disclosure 1.M.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

### **NOTE 9.C. STOCKPILE MATERIALS, NET**

Not applicable.



## NOTE 10. GENERAL PROPERTY, PLANT, AND EQUIPMENT (PP&E) (NET)

As of September 30, 2002

(Amounts in thousands)

	2002					2001
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
<b>1. Major Asset Classes:</b>						
A. Land	N/A	N/A	\$ 645,924	N/A	\$ 645,924	\$ 655,751
B. Buildings, Structures, and Facilities	S/L	20 - 40	32,862,380	\$ (12,612,305)	20,250,075	19,483,307
C. Leasehold Improvements	S/L	Lease Term	0	0	0	0
D. Software	S/L	2, 5 Or 10	1,059	(423)	636	1,067
E. Equipment	S/L	5 Or 10	2,837,863	(1,993,072)	844,791	916,938
F. Military Equipment	Composite/Group	Varied	0	0	0	0
G. Assets Under Capital Lease <sup>1</sup>	S/L	Lease Term	1,116	(206)	910	7,153
H. Construction-in-Progress	N/A	N/A	4,367,101	N/A	4,367,101	3,896,679
I. Other			0	0	0	592
J. Total General PP&E			<u>\$ 40,715,443</u>	<u>\$ (14,606,006)</u>	<u>\$ 26,109,437</u>	<u>\$ 24,961,487</u>

<sup>1</sup> Note 15.B for additional information on Capital Leases

### Legend for Depreciation/Amortization Methods:

S/L = Straight Line      N/A = Not Applicable

## 2. Other Information Related to General PP&E, Net

### Real Property

The Internet Naval Facility Asset Database Store (iNFADS) is used to derive real property values for financial reporting purposes. Land decreased from \$655,751 thousand in FY 2001 to \$645,924 thousand in FY 2002 and is mainly due to the Base Realignment and Closure (BRAC) sales. The increase in Buildings, Structures, and Facilities is a result of database cleanup and timing of moving completed projects into the property database.

### Leasehold Improvements

No leasehold improvements are reported for FY 2002, because DON's real property system does not track leasehold improvements as a separate component of a building's total value.

### Preponderant Use

Per the DoD FMR, Volume 4, Chapter 6, legal ownership is not always the determinant factor when establishing which DoD Component recognizes a particular General PP&E asset for accounting and reporting purposes. If the following four criteria are met, the preponderant user should report the property regardless of legal ownership or funding:

- The asset embodies a probable future benefit;
- The DoD Component that reports the asset obtains the benefit and controls access to the benefit inherent in the asset;
- The transaction or event giving the Component the right to, and control over, the benefit has already occurred; and
- The predominantly used assets, taken as a whole, are material to the Component's financial statements.



# General Fund Notes to the Principal Statements

During the course of FY 2002, DON has continued to identify properties whose preponderant users are other DoD Components. Those entities utilizing material amounts of DON owned property are as follows (dollar values include both acquisition value and improvements meeting the capitalization threshold):

(Amounts in thousands)	
	<u>FY 2002</u>
Defense Commissary Agency (DeCA)	\$ 47,013
DoD Schools	39,481
Defense Logistics Agency (DLA)	20,126

While DON has begun identifying the major parties involved, we continue to report the asset values of preponderant use assets in FY 2002. This is due to difficulties encountered when comparing our property records with those of the other entities. We will continue to work with the other DoD Components to come to agreement on the recording of preponderant use asset values for FY 2003.

**Software**

DON is participating in the OSD working group that is currently examining issues related to Internal Use Software. As of the date these statements were prepared, OSD had not determined the final reporting requirements for Internal Use Software. To ensure that the costs associated with Internal Use Software are correctly recognized and reported, DON will use the Defense Property Accountability System (DPAS) to capture this information once OSD adopts permanent reporting requirements.

**Construction-in-Progress (CIP)**

CIP balances were obtained from the Facilities Information System (FIS). CIP increased from \$3,896,679 thousand in FY 2001 to \$4,367,101 thousand in FY 2002, a net increase of \$470,422 thousand. This increase is due to additional military construction and the fact that the beneficial occupancy date BOD is 30 days after the building project is completed.

**Other**

During the deployment of the DPAS and data base conversion, some of the personal property assets were coded as "Other". Approximately \$592 thousand was reported under "Other" in FY 2001. In FY 2002, DON reviewed those items coded as "Other" and made the appropriate adjustments them in the correct asset classification.

**Property in the Possession of Contractors.**

The value of DON's General PP&E real property in the possession of contractors is included in the values reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property (Major Asset Classes of Software and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. Per the DoD FMR Volume 6B Chapter 10, DON is not supplementing General PP&E information with values from the Defense Contract Management Agency's CPMS (DD Form 1662) database. In accordance with an approved strategy with OMB, the GAO and the Inspector General, DoD, the DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with Federal GAAP.





### **Military Equipment (Unaudited Supplementary Information)**

In June 2002 the Federal Accounting Standards Advisory Board issued a standard entitled "Eliminating the Category National Defense Property, Plant, and Equipment (ND PP&E)". In addition to eliminating the category ND PP&E, this standard rescinds Statement of Federal Financial Accounting Standards (SFFAS) No. 11, "Amendment to Property, Plant, and Equipment – Definitional Changes"; amends SFFAS No. 8, "Supplementary Stewardship Reporting"; and amends SFFAS No. 6, "Accounting for Property, Plant, and Equipment". This standard is effective for years ending after September 30, 2002. The standard is currently sitting before Congress for a 45-day period in accordance with provisions of the CFO Act of 1990.

Prior standards provide for the expensing of ND PP&E when costs are incurred and the reporting of such costs as supplementary stewardship information. DoD has not reported the cost of ND PP&E in accordance with these standards due to an absence of detailed cost information for property acquired over many decades.

The standard on eliminating the category of ND PP&E provides for the capitalization of property previously defined as ND PP&E and the reporting of such property as General PP&E. In recognition of the absence of detailed historical cost information, this standard provides that, "If obtaining initial historical cost is not practical, estimated historical cost may be used. Other information such as but not limited to budget, appropriation, or engineering documents and other reports reflecting amounts expended may be used as the basis for estimating historical cost." The standard acknowledges that imprecision may result from the use of estimates or other information.

Capitalization of property previously defined as ND PP&E will require extensive research to develop cost estimates for the property inventory. DoD initiated the valuation process this fiscal year by conducting detailed reviews of three selected "pilot" programs including the DDG-51 Arleigh Burke Class of Destroyers. The objective of this effort was the development of a valuation methodology and associated business rules, which DoD could use to value the pilot programs and the balance of its military equipment. The following information summarizes the results of the review of the DDG-51 program.

**Valuation basis** - The valuation is based on information derived from reports reflecting amounts expended on this program.

**Included costs** - The estimated total program costs include funds expended for procurement, research, development, test and evaluation, trainers and simulators, government furnished equipment, and other items included in the cost of the acquisition programs. The estimated portion of total program cost attributable to equipment under construction is reported as "work-in-process."

**Useful life and depreciation** - The estimated useful life used for the Arleigh Burke Class of Destroyers is 35 years. Depreciation is calculated on a group basis whereby the depreciation rate is applied to the estimated cumulative cost of the equipment "placed in service."

**Excluded costs** - The cost of military construction (MILCON) has been excluded and is reported as real property. The costs of modifications to the DDG 51 are not accounted for in the valuation. The cost of DDG-51 modifications will be captured and reported separately in later phases of the implementation of this standard.

Estimated program cost, accumulated depreciation, and net book value for the Arleigh Burke Class of Destroyers are presented in the following table.

# General Fund Notes to the Principal Statements

(Amounts in Thousands)

	Program Cost	Amortized Depreciation	Net Book Value
<b>DDG 51 Arleigh Burke Class of Destroyer</b>			
- Placed in service	\$ 32,991,100	\$ (4,595,189)	\$ 28,395,911
- Work in process	6,452,776	-	6,452,776

**See Note Disclosure 1.N.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing General PP&E.

## NOTE 10.A. ASSETS UNDER CAPITAL LEASE

As of September 30,  
(Amounts in thousands)

### 1. Entity as Lessee, Assets Under Capital Lease:

- A. Land and Buildings
- B. Equipment
- C. Other
- D. Accumulated Amortization
- E. Total Capital Leases

2002	2001
\$ 0	\$ 0
1,116	16,928
0	0
(206)	(9,775)
<u>\$ 910</u>	<u>\$ 7,153</u>

### 2. Description of Lease Arrangements:

### 3. Other Information Related to Assets Under Capital Lease

#### Fluctuation and/or Abnormalities

Total Capital Leases decreased by \$6,243 thousand from \$7,153 thousand in FY 2001 to \$910 thousand in FY 2002. The decrease primarily consists of:

- (\$3,417 thousand) Adjustment to correct erroneous coding in DPAS related to database cleanup and conversion of additional sites to DPAS.
- (\$2,825 thousand) Expiration of lease agreements.

Leased assets consist primarily of personal property reported via the DPAS system. Disclosures pertaining to future payments due are provided at Note 15.

**See Note Disclosure 1.Q.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.





## NOTE 11. LIABILITIES NOT COVERED AND COVERED BY BUDGETARY RESOURCES

As of September 30,  
(Amounts in thousands)

	2002			2001
	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total	Total
<b>1. Intra-governmental Liabilities:</b>				
A. Accounts Payable	\$ 745,883	\$ 2,396	\$ 748,279	\$ 1,002,282
B. Debt	0	127	127	61
C. Environmental Liabilities	0	0	0	0
D. Other	465,069	3,024,434	3,489,503	1,066,185
E. Total Intra-governmental Liabilities	\$ 1,210,952	\$ 3,026,957	\$ 4,237,909	\$ 2,068,528
<b>2. Non-Federal Liabilities:</b>				
A. Accounts Payable	\$ 1,510,329	\$ 0	\$ 1,510,329	\$ 2,075,026
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	1,546,375	1,546,375	1,595,890
C. Environmental Liabilities	0	15,469,073	15,469,073	15,584,458
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	1,106,890	3,078,597	4,185,487	3,610,899
F. Total Non-Federal Liabilities	\$ 2,617,219	\$ 20,094,045	\$ 22,711,264	\$ 22,866,273
<b>3. Total Liabilities:</b>	<u>\$ 3,828,171</u>	<u>\$ 23,121,002</u>	<u>\$ 26,949,173</u>	<u>\$ 24,934,801</u>
<b>4. Other Information:</b>				

### Liabilities Not Covered and Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections (credited to an appropriation or fund account), (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations, (4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having to be met.

### Other Information Related to Liabilities Not Covered by Budgetary Resources

Intragovernmental Liabilities - Other includes the following:

(Amounts in thousands)

	Current	Non-Current	Total
Unfunded FECA Liability	\$ 246,882	\$ 316,264	\$ 563,146
A -12 Program Liability to Treasury	2,352,446	0	2,352,446
Judgment Fund	105,842	0	105,842
Total	<u>\$ 2,705,170</u>	<u>\$ 316,264</u>	<u>\$ 3,021,434</u>



# General Fund Notes to the Principal Statements

## **Workers' Compensation.**

DON total liability amounts of the Workers' Compensation (FECA) and Judgment Fund for both General Fund and Working Capital Fund are reported in DON's General Fund financial statements. This methodology is necessary due to the current accounting systems not identifying these liabilities as General Fund or Navy Working Capital Fund.

The current FECA liability of \$246,882 thousand represents the balance due for remittance in FY 2003. The remaining balance of \$316,264 thousand will be billed beyond FY 2003. These balances are provided by DFAS-Arlington and confirmed with the Department of Labor.

## **A-12 Program.**

Unliquidated progress payments and associated accrued interest receivable for the A-12 contractor debt is reported as an unfunded liability to Treasury. Collections on this debt will be due and payable to Treasury as the Appropriations are in a cancelled status. See Note 5 for further disclosure.

## **Judgment Fund.**

During FY 2002 DON has made substantial progress in identifying and resolving Judgment Fund liabilities. It is in compliance with USD(C) action to resolve any outstanding debt due to the Department of Treasury for repayment of the Judgment Fund. DON is in the process of working with the appropriate Management Commands either to provide documentation that these amounts have been remitted to the Treasury, or to provide necessary funding to liquidate these liabilities. DON is working with Treasury to secure further detailed information concerning the amounts owed. In FY 2002 DON reported \$105,842 thousand as an outstanding Judgment Fund liability. Among this, \$104,056 thousand is attributed to Navy and \$1,786 thousand belongs to Marine Corps.

## **Nonfederal Liabilities - Other includes the following:**

(Amounts in thousands)

	Current	Non-Current	Total
Annual Leave	\$ 2,031,961	\$ 0	\$ 2,031,961
Contract Incentives	5,701	72,464	78,165
Nonfederal, Nonenvironmental Disposal Liabilities	1,707	564,446	566,153
Nonfederal, Disposal Liabilities for Excess/Obsolete Structures	41,685	290,890	332,575
Accounts Payable — Cancelled Appropriations	68,833	0	68,833
Capital Lease Liability	910	0	910
Total	<u>\$ 2,150,797</u>	<u>\$ 927,800</u>	<u>\$ 3,078,597</u>

## **For Additional Line Item discussion, see:**

Note 8, Direct Loans and/or Loan Guarantee Programs

Note 12, Accounts Payable

Note 13, Debt

Note 14, Environmental Restoration Liabilities, and Environmental Disposal Liabilities

Note 15, Other Liabilities

Note 16, Commitments and Contingencies

Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities





## NOTE 12. ACCOUNTS PAYABLE

As of September 30, 2002  
(Amounts in thousands)

	2002			2001
	Accounts Payable	Interest, Penalties, Administrative Fees	Total	Total
<b>1. Intra-governmental Payables:</b>	\$ 748,279	\$ N/A	\$ 748,279	\$ 1,002,282
<b>2. Nonfederal Payable (to the Public):</b>	\$ 1,510,329	\$ 0	\$ 1,510,329	\$ 2,075,026
<b>3. Total</b>	<u>\$ 2,258,608</u>	<u>\$ 0</u>	<u>\$ 2,258,608</u>	<u>\$ 3,077,308</u>

### 4. Other Information Related to Accounts Payable

Intragovernmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to intragovernmental payables. Non-Federal Payables (to the Public) are payments to nonfederal government entities.

#### Fluctuation and/or Abnormalities

Accounts Payable decreased overall 26.6% from FY 2001. DON is actively pursuing the timely payment of vendors. Additionally, Intragovernmental and Nonfederal accounts payable are directly affected by the elimination process based upon trading partner submissions. See the disclosures below addressing Undistributed, Intragovernmental Eliminations and Abnormal Account Balances. Those items along with current levels of funding and the status of budget execution affect current accounts payable balances.

#### Undistributed Disbursements

Undistributed disbursements are the difference between disbursements/collections recorded at the detailed level to a specific obligation, payable, or receivable in the activity field records versus those reported by the U.S. Treasury via the reconciled DD 1329 and DD1400. This should agree with the undistributed reported on accounting reports (SF 133/ (M) 1002/ (M) 1307). In-transit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records.

#### Intragovernmental Eliminations

For the majority of intra-agency sales DON's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, DON was unable to reconcile intragovernmental accounts payable to the related intragovernmental accounts receivable that generated the payable.

The DoD summary level seller accounts receivables were compared to DON's accounts payable. An adjustment was posted to DON'S accounts payable based on the comparison with the accounts receivable of the DoD Components providing goods and services to DON.

DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

# General Fund Notes to the Principal Statements

## Other DON Disclosures

### Abnormal Account Balances.

Abnormal Accounts Payable and Accounts Receivable balances may occur for two main reasons – 1) the application of undistributed disbursement/collections and 2) as a result of the intragovernmental transaction elimination process. DFAS Arlington has provided guidance in a memorandum dated March 1, 2001 to record accruals, for financial statement presentation purposes, to correct abnormal balances.

Undistributed disbursements/collections are recorded in Accounts Payable and Accounts Receivable, respectively. For a variety of reasons, the application of undistributed transactions may result in abnormal balances.

In accordance with the DoD FMR, Volume 6B, Chapter 13, adjustments are recorded, at the appropriation level, to bring DON's intragovernmental accounts into agreement with its trading partners' intragovernmental accounts. These elimination process adjustments may also result in abnormal accounts payable and accounts receivable.

DON has initiated the development of an Accounts Payable Implementation Strategy to improve the recording and reporting of accounts payable. The strategy addresses the overall DON approach to recording accounts payable, including accounts payable from commercial and intragovernmental sources. Development of the implementation strategy is in its final stages and includes several recommendations for improvements. These address, for example, the timely recording of accounts payable transactions, the proper classification of accounts payable between the government and the public, the identification of intragovernmental trading partners and related transactions, and the support of end-of-period adjusting entries for undistributed disbursements and intragovernmental eliminations.

**See Note Disclosure 1.G.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intragovernmental Activities.



## NOTE 13. DEBT

As of September 30,  
(Amounts in thousands)

	Beginning Balance	2002 Net Borrowings	Ending Balance	2001 Ending Balance
<b>1. Agency Debt:</b>				
A. Debt to the Treasury	\$ 0	\$ 0	\$ 0	\$ 0
B. Debt to the Federal Financing Bank	0	0	0	0
C. Debt to Other Federal Agencies	61	66	127	61
D. Total Agency Debt	\$ 61	\$ 66	\$ 127	\$ 61
<b>2. Total Debt:</b>	<u>\$ 61</u>	<u>\$ 66</u>	<u>\$ 127</u>	<u>\$ 61</u>
<b>3. Classification of Debt:</b>				
A. Intra-governmental Debt			\$ 127	\$ 61
B. Non-Federal Debt			N/A	N/A
C. Total Debt			<u>\$ 127</u>	<u>\$ 61</u>

### 4. Other Information Related to Debt

Debt to Other Federal Agencies is related to interest payable from DON to the Education Benefit Trust Fund which is part of DoD Military Trust Fund. Amounts due and payable are based upon the DoD Education Trust as the trading partner (seller side) submission.

**See Note Disclosure 1.G.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounting for Intragovernmental Activities, Public Debt.



# General Fund Notes to the Principal Statements

## NOTE 14. ENVIRONMENTAL RESTORATION (CLEANUP) LIABILITIES AND ENVIRONMENTAL DISPOSAL LIABILITIES

As of September 30,  
(Amounts in thousands)

### 1. Environmental Liabilities:

A. Intragovernmental: Not Applicable.

B. Non-federal:

	2002			2001
	Current Liability	Noncurrent Liability	Total	Total
1. Accrued Environmental Restoration (DERP funded) Costs:				
a. Active Installations—Environmental Restoration (ER)	\$ 259,389	\$ 3,261,449	\$ 3,520,838	\$ 3,661,174
b. Active Installations—ER for Closed Ranges	7,000	342,975	349,975	88,239
c. Formerly Used Defense Sites (FUDS) — ER	0	0	0	0
d. FUDS—ER for Transferred Ranges	0	0	0	0
2. Other Accrued Environmental Costs (Non-DERP funds)				
a. Active Installations—Environmental Corrective Action	0	0	0	0
b. Active Installations—Environmental Closure Requirements	0	0	0	0
c. Active Installations—Environ.Response at Active Ranges	0	0	0	0
d. Other	0	0	0	0
3. Base Realignment and Closure (BRAC)				
a. BRAC Installations—Environmental Restoration (ER)	160,210	1,133,101	1,293,311	1,316,295
b. BRAC Installations—ER for Transferring Ranges	0	29,896	29,896	0
c. BRAC Installations—Environmental Corrective Action	0	0	0	0
d. Other	0	0	0	0
4. Environmental Disposal for Weapons Systems Programs				
a. Nuclear Powered Aircraft Carriers	0	4,890,000	4,890,000	4,890,000
b. Nuclear Powered Submarines	43,600	4,845,300	4,888,900	5,122,400
c. Other Nuclear Powered Ships	0	269,100	269,100	269,100
d. Other National Defense Weapons Systems	6,809	220,244	227,053	237,250
e. Chemical Weapons Disposal Program	0	0	0	0
f. Other	0	0	0	0
5. Total Nonfederal Environmental Liabilities:	\$ 477,008	\$ 14,992,065	\$ 15,469,073	\$ 15,584,458
2. Total Environmental Liabilities:	\$ 477,008	\$ 14,992,065	\$ 15,469,073	\$ 15,584,458

### 3. Other Information Related to Environmental Liabilities:

#### Fluctuation and/or Abnormalities

When comparing FY 2001 with FY 2002 the increase in the environmental restoration for closed ranges at active installations is due to the fact that this is a new reporting requirement. The 100% increase for transferring ranges and Base Realignment and Closure is a result of a new reporting requirement. The DON is currently in the process of conducting Preliminary Assessment/Site Investigations (PA/SI) to determine the nature of the environmental restoration work that is actually at the ranges so estimates for cleanup can be completed. PA/SIs are expected to be completed by end of FY 2003.





### **Environmental Restoration (DERP Funded) Cost Liabilities**

For FY 2002, DON estimated and reported \$3,870,813 thousand for environmental restoration liabilities. This is comprised of \$3,520,838 thousand in Active Installations - Environmental Restoration (ER) liabilities and \$349,975 thousand in Active Installations - ER for Closed Ranges liabilities which represents Unexploded Ordnance Cost (UXO) related to twelve sites. DON was not segregating and reporting UXO prior to FY 2001 as part of the total amount disbursed. The DoD FMR, Volume 6B, Chapter 10 requires that "any estimate produced must be based on site specific information and use cost models validated in accordance with DoD instruction 5000.61". DON plans to support this requirement and continue validating its range inventory and pursuing the process of obtaining valid cost estimates for each range. The increase in the ER closed ranges is due to the addition of ranges from the start up of the munitions response program (MRP).

### **Other Accrued Environmental Costs (Non-DERP funds)**

During FY 2002, DON participated in DoD Environmental Quality Liabilities Working Group to develop guidance. In addition, the DON developed guidance for the DON Major Commands to use as they begin to identify site data and develop estimates for DON's "ongoing" operations. The DON continued review of program areas such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retrofill, and/or disposal of PCB transformers, underground storage tank remedial investigation and closure. For these areas the DON has identified an estimated total potential long term liability of \$17,344 thousand. In addition to cleanup costs associated with ongoing operations, the Kaho'Olawe Island Trust Fund provides for cleanup of Kaho'Olawe Island. Congress initially set a funding limit of \$400,000 thousand with annual execution of \$25,000 thousand. Further investigation is needed prior to recognizing an estimate on the financial statements for cleanup of Kaho'Olawe Island.

### **Base Realignment and Closure (BRAC)**

The increase of BRAC Installations - ER for Transferring Ranges is due to the addition of ranges from the start up of the MRP.

### **Environmental Disposal for Weapons Systems Programs**

DON reported an environmental disposal liability for Weapons Systems Programs of \$10,275,053 thousand in FY 2002. This includes nuclear powered aircraft carriers, nuclear powered submarines, other nuclear powered ships and other national defense weapons systems. The liability amount associated with nuclear powered ships of \$269,100 thousand did not change from FY 2001 to FY 2002.

### **Range Characteristics**

For FY 2002, the DON determined that it owns 12 closed ranges.

Ranges. DON is currently in the process of doing Preliminary Site Investigations (PSIs). The purpose of the PSI is to help DON staff determine the nature of the work that is actually at the ranges so then actual estimates can be completed. Expected completion date of the PSIs is the end of FY 03.

Closed Ranges. \$349,975 thousand must be expended to characterize and investigate the ranges. Until such characterization is completed, total environmental liabilities cannot be estimated. These are ranges that have been taken out of service as a range and that either have been put to new uses that are incompatible with ranges activities or are not considered by the military to be potential range area. A closed range is still under the control of a DOD Component.

# General Fund Notes to the Principal Statements

## **Methodology Used to Estimate Environmental Liabilities:**

### **Accrued Environmental Restoration (DERP Funded) Costs:**

#### Accrued Environmental Restoration Activity.

Accrued restoration (cleanup) liabilities represent the cost to correct past environmental problems that are funded under the Defense Environmental Restoration Program in accordance with "Management Guidance for the DERP," and "Accrued Environmental Restoration (Cleanup) Liabilities," Chapter 14 of Volume 4 of the DoD FMR. These liabilities relate to PP&E, including acquired land and Stewardship Land, as those major asset categories are described in Chapter 6 of Volume 4 of the DoD FMR. Environmental restoration activities may be conducted at operating installations, at FUDS, at Closed, Transferred, and Transferring Ranges. Environmental restoration measurements involve the use of cost estimates that consider, on a current cost basis, the anticipated costs of the level of effort required to affect the restoration, as well as applicable legal and/or regulatory requirements. The estimates are based on DON's cost-to-complete (CTC) module of the DON Normalization of Data System (NORM). Certification of the CTC module was completed early in FY 2002. Such cost estimates are based on the current technology available. Site inventory and estimated cost data prepared for the DERP report to the Congress was used by the DON as the baseline for environmental restoration (cleanup) liability measurement (i.e., the current cost to acquire the required services). The Accrued Environmental Restoration (Cleanup) Costs do not include the costs of environmental compliance, pollution prevention, conservation activities, contamination or spills associated with current operations, or treaty obligations, all of which are accounted for as part of ongoing operations.

#### Active Installations – Environmental Restoration For Closed Ranges.

This represents the environmental liabilities associated with the identification, investigation and removal and remedial actions to address environmental contamination at ranges that are closed or will be closed prior to September 30, 2002. The contamination may include munitions, chemical residues from military munitions and munitions scrap at ranges on active installations that pose a threat to human health or the environment. The amount reported is the portion of the liability that can be estimated based on site level investigations and characterizations. The estimate produced is based on site specific information and use cost models validated in accordance with DoD Instruction 5000.61. Total liabilities (cost to complete) are not estimated until there is sufficient site specific data available to estimate the total liability.

### **Information regarding changes**

Survey data of the Department of the Navy Environmental Restoration Program cost estimate changes, representing FY 2002 through completion changes between end of year 2001 and end of year 2002, for sites that had over 10% change or 500K indicates diverse reasons for change in estimates. Multiple reasons may apply both as plus-ups and deducts at any site. The reasons for changes are estimation changes (26%), regulatory changes (60%), and technical changes (15%). Reasons for changes in estimation are as follows: cost to complete (CTC) overlooked or previously unknown, better site characterization with sampling, cost avoidance rerun CTC, re-estimation based on different assumptions and/or escalation, and re-estimation of costs based on lessons learned. Reasons for changes in the area of regulatory are as follows: addition of range rule/munitions requirements, additional or extended long term monitoring requirements or 5 year reviews, no further action agreement with regulator, and risk based corrective action. Reasons for changes in the area of technical are as follows: additional contamination level reduction with sampling, additional or extended remedial action operation, additional sites and incomplete site data, and technical solution changed.

For additional information concerning applicable laws and regulations, methodology for assigning estimated cleanup costs, and description of sites and technology used for cleanup consult the DON publication "DON Environmental Restoration: Report for Fiscal Year 2002-2006"







## NOTE 15.A. OTHER LIABILITIES

As of September 30,  
(Amounts in thousands)

	2002			2001
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intragovernmental:</b>				
A. Advances from Others	\$ 0	\$ 0	\$ 0	\$ 0
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	250,075	0	250,075	178,939
D. Resources Payable to Treasury	930	0	930	480
E. Disbursing Officer Cash	130,664	0	130,664	160,589
F. Non-environmental Disposal Liabilities				
1. National Defense PP&E (Nonnuclear)	0	0	0	0
2. Excess/Obsolete Structures	0	0	0	0
3. Conventional Munitions Disposal	0	0	0	0
4. Other	0	0	0	0
G. Accounts Payable -- Cancelled Appropriations	0	0	0	0
H. Judgment Fund Liabilities	105,842	0	105,842	135,716
I. FECA Reimbursement to the Department of Labor	246,881	319,264	566,145	558,574
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	2,435,847	0	2,435,847	31,887
L. Total Intragovernmental Other Liabilities	<u>\$ 3,170,239</u>	<u>\$ 319,264</u>	<u>\$ 3,489,503</u>	<u>\$ 1,066,185</u>
<b>2. Nonfederal:</b>				
A. Accrued Funded Payroll and Benefits	\$ 1,011,367	\$ 0	\$ 1,011,367	\$ 986,194
B. Advances from Other	1,135	0	1,135	0
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0	0
G. Temporary Early Retirement Authority	2,209	0	2,209	12,471
H. Nonenvironmental Disposal Liabilities:				
1. National Defense PP&E (Nonnuclear)	1,707	564,445	566,152	588,025
2. Excess/Obsolete Structures	41,685	290,890	332,575	117,000
3. Conventional Munitions Disposal	0	0	0	0
4. Other	0	0	0	0
I. Accounts Payable -- Cancelled Appropriations	68,833	0	68,833	0
J. Accrued Unfunded Annual Leave	2,031,961	0	2,031,961	1,768,195
K. Accrued Entitlement Benefits for Military Retiree's and Survivors	0	0	0	0
L. Capital Lease Liability	910	0	910	10,134
M. Other Liabilities	97,880	72,464	170,344	128,880
N. Total Nonfederal Other Liabilities	<u>\$ 3,257,687</u>	<u>\$ 927,799</u>	<u>\$ 4,185,486</u>	<u>\$ 3,610,899</u>
<b>3. Total Other Liabilities:</b>	<u>\$ 6,427,926</u>	<u>\$ 1,247,063</u>	<u>\$ 7,674,989</u>	<u>\$ 4,677,084</u>
<b>4. Other Information Related to Other Liabilities:</b>				

# General Fund Notes to the Principal Statements

## Fluctuations and/or Abnormalities.

### Intragovernmental Fluctuations (Amounts in thousands)

	FY 2002	FY 2001	Increase
A-12 aircraft program (principal and interest)	\$ 2,352,446	\$ 0	\$ 2,352,446
Military Thrift Savings deposit fund	23,966	0	23,966
Withheld state and local taxes	86,980	62,692	24,288
Civilian employee allotments	21,841	72	21,769
Total	<u>\$ 2,485,233</u>	<u>\$ 62,764</u>	<u>\$ 2,422,469</u>

Other Intragovernmental Liabilities increased 227.2% or \$2,423,318 thousand from FY 2001 to FY 2002. A liability to Treasury for the A-12 aircraft program unliquidated progress payments and associated accrued interest represents \$2,352,446 thousand of this increase. See Notes 5 and 11 for further disclosure. Deposit funds and suspense account liabilities increased \$71,136 thousand from FY 2001 to FY 2002. Deposit funds and suspense accounts ending balances may fluctuate based upon the timing of clearing suspense and the transfer of funds in deposit accounts. The major items comprising the increase are the new Military Thrift Savings Plan for \$23,966 thousand, Withheld State and local taxes for \$24,288 thousand and Civilian employee allotments for \$21,769 thousand.

## Nonenvironmental Disposal Liability Disclosure

### Nuclear Assets

DON has agreed to recognize the nonenvironmental disposal liability for nuclear powered assets when the asset is initially placed in service. The nonenvironmental cost are included with the environmental disposal costs and reported in Note 14.

### Excess/Obsolete Structures

Included in the reported amounts is the current cost basis estimates of disposing of, or demolishing, approximately \$332,575 thousand worth of square feet of excess/obsolete structures at active installations, in accordance with disposal plans directed by Defense Reform Initiative Directive No. 36 Dated 5 May 1998. The expected completion date is FY 2003. This target includes both the Navy and the Marine Corps real property assets.

### Intragovernmental Reconciliation for Fiduciary Transactions With DOL and OPM

With respect to the major fiduciary balances with DOL and OPM, DON was able to reconcile with the DOL and OPM. In FY 2002, DON reported the following Intragovernmental liabilities with DOL and OPM:

### Intragovernmental Fiduciary Liabilities DOL and OPM:

(Amounts in thousands)

	Current	Non-Current	Total
FECA Reimbursement liability with DOL	\$ 246,881	\$ 319,264	\$ 566,145
Unemployment Benefits liability with DOL	50,729	0	50,729
VSIP/VERA liability with OPM	32,672	0	32,672
Total	<u>\$ 330,282</u>	<u>\$ 319,264</u>	<u>\$ 649,546</u>

### Judgment Fund.

DON must reimburse the Department of Treasury for payments made from the Judgment Fund on its behalf. These payments are a result of claims being resolved under the Contracts Dispute Act. In FY 2002, DON made great strides in reconciling and identifying outstanding liability due to the Department of the Treasury Judgment Fund. As of September 30, 2002, DON identified \$105,842 thousand of outstanding Judgment Fund Liabilities. DON is working closely with Treasury to reconcile and to resolve the outstanding liabilities.




**Intragovernmental Liabilities, Other.**

Other Intragovernmental Liabilities includes the liability to Treasury for the A-12 aircraft program with associated accrued interest of \$2,352,446 thousand, Unemployment benefits due and payable of \$50,729 thousand and the Voluntary Separation Incentive Program/VERA liability of \$32,671 thousand.

**Nonfederal Liabilities.**
**Nonfederal Fluctuations**  
 (Amounts in thousands)

	FY 2002	FY 2001	Increase
Accrued (unfunded) annual leave	\$ 2,031,960	\$ 1,768,195	\$ 263,765
Nonenvironmental Disposal Excess and Obsolete	332,575	117,000	215,575
Accounts payable for cancelled appropriations	68,833	0	68,833
Accrued funded payroll	1,011,367	986,194	25,173
Total	<u>\$ 3,444,735</u>	<u>\$ 2,871,389</u>	<u>\$ 573,346</u>

Nonfederal Liabilities increased 15.9% or \$574,587 thousand from FY 2001 to FY 2002. Accrued unfunded annual leave increased \$263,765 thousand from FY 2001 to FY 2002. Increases and decreases in leave are affected by the timing of leave earned versus leave taken. Nonenvironmental Disposal liabilities for Excess/Obsolete Structures increased \$215,575 thousand from FY 2001 to FY 2002 based upon current estimates. Accounts Payable for cancelled appropriations increased by \$68,833 thousand over FY 2001 to FY 2002. Cancelled year accounts payable were not recorded in FY 2001. Nonfederal, Accrued Funded Payroll increased by \$25,173 thousand from FY 2001 to FY 2002 due to the September 2002 month end Military payroll being paid in October 2002.

**Nonfederal Liabilities, Other.**

Other Nonfederal Liabilities includes Contract Incentives of \$78,165 thousand, which increased \$14,926 thousand from FY 2001 to FY 2002 based upon current contract terms in outstanding vendor performance contracts. The remainder represents contract holdbacks of \$92,179 thousand, which increased \$26,538 thousand from FY 2001 to FY 2002. Contract holdbacks may fluctuate depending on the volume and stage of completion of contracts with vendors

**See Note Disclosure 1.S.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

# General Fund Notes to the Principal Statements

## NOTE 15.B. CAPITAL LEASE LIABILITY

As of September 30,  
(Amounts in Thousands)

	2002 Asset Category				2001
	Land and Buildings	Equipment	Other	Total	Total
<b>1. Future Payments Due:</b>					
A. Fiscal Year 2003	\$ 0	\$ 910	\$ 0	\$ 910	\$ 2,184
B. Fiscal Year 2004	0	0	0	0	641
C. Fiscal Year 2005	0	0	0	0	0
D. Fiscal Year 2006	0	0	0	0	0
E. Fiscal Year 2007	0	0	0	0	0
F. After 5 Years	0	0	0	0	0
G. Total Future Lease Payments Due	\$ 0	\$ 910	\$ 0	\$ 910	\$ 2,825
H. Less: Imputed Interest Executory Costs	0	0	0		0
I. Net Capital Lease Liability	<u>\$ 0</u>	<u>\$ 910</u>	<u>\$ 0</u>	<u>\$ 910</u>	<u>\$ 2,825</u>
<b>2. Capital Lease Liabilities Covered by Budgetary Resources:</b>				\$ 910	\$ 2,184
<b>3. Capital Lease Liabilities Not Covered by Budgetary Resources:</b>				\$ 0	\$ 641

### 4. Other Information Related to Capital Lease Liability

The liabilities associated with capital leases are captured in legacy systems and are often not recorded. The DON has recognized a liability equal to the net value of the assets (i.e. gross value less accumulated amortization). The resulting liability was recorded as a payment due in FY 2003. The proper breakout of future payments to appropriate years will be done when a process for capturing lease liabilities is implemented.

**See Note Disclosure 1.Q.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.



## NOTE 16. COMMITMENTS AND CONTINGENCIES

### Other Information Related to Commitments and Contingencies

- At this time the DON is unable to collect data concerning cancelled appropriations that have a contractual commitment for payment and amounts for contractual arrangements which may require future financial obligations (undelivered orders).
- Disclosure Related to Contingencies Liabilities

The DON reported contingencies as “reasonably possible.” Federal Accounting Standards Advisory Board defines “Reasonably Possible,” as: “The chance of the future confirming event or events occurring is more than remote but less than probable.” “Reasonably possible” events require disclosure only in the footnotes.

For FY 2002, the DON is subject to various asserted claims. These claims are in various stages ranging from investigation to appeal. While remaining unresolved as of the close of FY 2002, prior experience affords the DON the ability to forecast the possible loss associated with the claims. It is to be noted that most claims are settled for less than the amount initially claimed, dismissed outright, or fail to materialize. As of 30 September 2002, contingent liabilities consist of an estimated \$117,474 thousand resulting from contractual actions; \$6,774 thousand for employee related actions; and \$139,353 thousand for Italian civil litigation.

Category	\$ in thousands
Contractual Actions	\$ 117,474
Employee Related Actions	6,774
Italian Civil Litigation	139,353
Total	\$ 263,601

**See Note Disclosure 1.S.** – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.



# General Fund Notes to the Principal Statements

## NOTE 17. MILITARY RETIREMENT BENEFITS AND OTHER EMPLOYMENT RELATED ACTUARIAL LIABILITIES

As of September 30,  
(Amounts in Thousands)

	2002			2001	
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate (%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability	Unfunded Actuarial Liability
<b>1. Pension and Health Benefits:</b>					
A. Military Retirement Pensions	\$ 0	0%	\$ 0	\$ 0	\$ 0
B. Military Retirement Health Benefits	0	0%	0	0	0
C. Medicare-Eligible Retiree Benefits					
D. Total Pension and Health Benefits	<u>\$ 0</u>		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>2. Other:</b>					
A. Federal Employees Compensation Act	\$ 1,546,375	5.21%	\$ 0	\$ 1,546,375	\$ 1,595,890
B. Voluntary Separation Incentive Programs	0	0%	0	0	0
C. DoD Education Benefits Fund	0	0%	0	0	0
D. Total Other	<u>\$ 1,546,375</u>		<u>\$ 0</u>	<u>\$ 1,546,375</u>	<u>\$ 1,595,890</u>
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:</b>	<u><u>\$ 1,546,375</u></u>		<u><u>\$ 0</u></u>	<u><u>\$ 1,546,375</u></u>	<u><u>\$ 1,595,890</u></u>

### 4. Other Information Related to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:

**Reporting of Military Retirement Benefits by the Military Retirement Fund (MRF).** The portion of the military retirement benefits actual liability applicable to the DON is reported on the financial statements of MRF.

**Reporting of Liability Pertaining to Military Health Benefits Compensation.** Health benefits are funded centrally at the DoD level. As such the portion of the health benefits actuarial liability that is applicable to DON is reported only on the DoD Agency-wide financial statements.

### Federal Employees Compensation Act (FECA).

Actuarial Cost Method Used:

Assumptions:

### Future Workers' Compensation

The DON's actuarial liability for workers' compensation benefits is developed by DOL and provided to DON at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits. Interest rate assumptions utilized for discounting were as follows:

#### **FY 2002**

5.21% in Year 1

5.21% in Year 2 and thereafter

Inflation factors were applied to provide more specifically the effects on the liability for future workers' compensation benefits. Cost of living adjustments (COLAs) were used as a wage inflation factor and consumer price index medical (CPIMs) were used as medical inflation factors. These factors were also used to adjust the methodology's historical payments to current year constant dollars.



The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

<u>CBY</u>	<u>COLA</u>	<u>CPIM</u>
2002	3.00%	4.15%
2003	2.56%	4.09%
2004	2.50%	4.09%
2005+	2.50%	4.09%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

The estimate was allocated between General Fund and Navy Working Capital Fund using a percentage based on the number of civilian employees taken from the Navy Budget Tracking System. The following table details the numbers used in support of the allocation:

	<u>Personnel</u>	<u>Allocation %</u>
DON General Fund	104,672	54%
DON Working Capital Fund	89,212	46%
Total	193,884	100%

**Voluntary Separation Incentive (VSI) Program.** The Voluntary Separation Incentive (VSI) Fund (recorded on the books of the U.S. Treasury) is used to accumulate funds to finance, on an actuarially sound basis, the liabilities of the DoD incurred under this program. The VSI benefit is an annual annuity paid to members who have separated under this program, and is paid for a period of time equal to twice the members' years of service. These benefits are paid by the VSI fund, which receives contributions from the services from their military personnel accounts. Contributions amounts are determined by the DoD, Office of the Actuary in conjunction with the USD(C), based on a comparison of liabilities to assets.

**DoD Education Benefits Fund.** The DoD Education Benefits Fund is designed to accumulate funds for the educational programs described under Title 10 United States Code, section 2006. This program promotes the recruitment and retention of members for the All-Volunteer Forces program and the Total Force Concept of the Armed Forces and aids in the readjustment of members of the Armed Forces to civilian life after separation from military service.

## NOTE 18. UNEXPENDED APPROPRIATIONS

As of September 30,  
(Amounts in Thousands)

### 1. Unexpended Appropriations:

- A. Unobligated, Available
- B. Unobligated, Unavailable
- C. Unexpended Obligations
- D. Total Unexpended Appropriations

<u>2002</u>	<u>2001</u>
\$ 10,567,040	\$ 12,391,407
1,318,416	1,444,855
52,888,872	48,146,256
<u>\$ 64,774,328</u>	<u>\$ 61,982,518</u>

### 2. Other Information Pertaining to Unexpended Appropriations:



# General Fund Notes to the Principal Statements

## NOTE 19.A. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

The amounts presented in the Statement of Net Cost (SoNC) are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. The DON generally records transactions on a cash basis and not an accrual basis as is required by Federal GAAP. Therefore, the DON systems do not capture actual costs. As such, information presented in the SoNC is based on budgetary obligations, disbursements, and collection transactions, as well as non-financial feeder systems; then adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

The Intragovernmental costs for FY 2001 is \$1,357 thousand higher than the published statement last year, while the earned revenue is \$1,357 thousand lower than the published statement last year. It is due to erroneous mapping in the Statement of Net Cost last year. Expense account 6800F was mapped to revenue account in FY 2001. The error was corrected in FY 2002.

## NOTE 19.B. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION - Not applicable

## NOTE 19.C. GROSS COST TO GENERATE INTRA-GOVERNMENTAL REVENUE AND EARNED REVENUE (TRANSACTIONS WITH OTHER FEDERAL - NON-DoD - ENTITIES) BY BUDGET FUNCTIONAL CLASSIFICATION - Not applicable

## NOTE 19.D. IMPUTED EXPENSES

As of September 30,  
(Amounts in thousands)

1. Civilian (e.g., CSRS/FERS) Retirement
2. Civilian Health
3. Civilian Life Insurance
4. Judgment Fund/Litigation
5. Military Retirement Pension
6. Military Retirement Health
7. Total Imputed Expenses

	2002	2001
1. Civilian (e.g., CSRS/FERS) Retirement	\$ 183,704	\$ 186,162
2. Civilian Health	235,713	244,331
3. Civilian Life Insurance	880	835
4. Judgment Fund/Litigation	104,997	59,130
5. Military Retirement Pension	0	0
6. Military Retirement Health	0	0
7. Total Imputed Expenses	<u>\$ 525,294</u>	<u>\$ 490,458</u>

### Other Information Related to Imputed Expenses

The DON financial statements have recognized an imputed expense for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed expenses for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).

## NOTE 19.E. BENEFIT PROGRAM EXPENSES

Not applicable.

## NOTE 19.F. EXCHANGE REVENUE

Disclosures Related to the Exchange Revenue: None.





## NOTE 19.G. AMOUNTS FOR FOREIGN MILITARY SALES (FMS) PROGRAM PROCUREMENTS FROM CONTRACTORS

Disclosures Related to Amounts for FMS Program Procurements from Contractors: Not applicable.

## NOTE 19.H. STEWARDSHIP ASSETS OTHER INFORMATION RELATED TO STEWARDSHIP ASSETS

Stewardship assets include Heritage Assets, Stewardship Land, Non-Federal Physical Property, and Investments in Research and Development. The current year cost of acquiring, constructing, improving, reconstructing, or renovating stewardship assets are included in the Statement of Net Cost. Material yearly investment amounts related to stewardship assets are provided in the Required Supplementary Stewardship Information section of this financial report.

## NOTE 19.I. INTRAGOVERNMENTAL REVENUE AND EXPENSE

The majority of DON accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, DON was unable to reconcile intragovernmental revenue balances with its trading partners. DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with existing or foreseeable resources.

## NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

As of September 30,  
(Amounts in thousands)

	Cumulative Results of Operations 2002	Unexpended Appropriations 2002	Cumulative Results of Operations 2001	Unexpended Appropriations 2001
<b>1. Prior Period Adjustments Increases (Decreases) to Net Position</b>				
<b>Beginning Balance:</b>				
A.Changes in Accounting Standards	\$ 0	\$ 0	\$ 24,765,804	\$ 0
B.Errors and Omissions in Prior Year Accounting Reports	(27,802,492)	1,553,324	8,693,901	0
C.Other Prior Period Adjustments	0	0	(1,618,046)	0
<b>D.Total Prior Period Adjustments</b>	<u>\$ (27,802,492)</u>	<u>\$ 1,553,324</u>	<u>\$ 31,841,659</u>	<u>\$ 0</u>
<b>2. Imputed Financing:</b>				
A.Civilian CSRS/FERS Retirement	\$ 183,704	\$ 0	\$ 186,162	\$ 0
B.Civilian Health	235,713	0	244,331	0
C.Civilian Life Insurance	880	0	835	0
D.Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	104,997	0	59,130	0
<b>G.Total Imputed Financing</b>	<u>\$ 525,294</u>	<u>\$ 0</u>	<u>\$ 490,458</u>	<u>\$ 0</u>

### 3. Other Information Related to the Statement of Changes in Net Position.

#### Errors and Omissions in Prior Year Accounting Reports

Several prior period adjustments were recorded to DON financial statements and were recognized as "mistakes in the application of accounting principles," as described in paragraph 10 of SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." The overall impact of the prior period adjustments warrants the restatement of the FY 2001 DON financial statements for comparative

# General Fund Notes to the Principal Statements

purposes. These adjustments affected the following financial statements for restatement: Balance Sheet and Statement of Changes in Net Position. The prior period adjustments were categorized as follows:

(Amounts in thousands)

	<u>Cumulative Results of Operations</u>	<u>Unexpended Appropriations</u>
Progress Payments	\$ 6,034,550	\$ (6,034,550)
A-12 Program Contractor Advance and Interest		(1,483,365)
Erroneous Correcting Entry in FY 2001	(8,539,173)	8,539,173
Environmental Liabilities	(532,065)	532,065
Removal of Tactical Missiles	(24,765,804)	0
Total	<u>\$ (27,802,492)</u>	<u>\$ 1,553,323</u>

Progress Payments (Outstanding Contract Financing Payments) were properly recorded in FY 2001 on the Balance Sheet as a capitalized asset. This entry was made as an adjustment to capitalize what was initially recorded as an expense. The offsetting entry was made to Unexpended Appropriations. Instead of an offsetting entry to Unexpended Appropriations, the entry should have reduced expenses. The offset would then have closed to Cumulative Results of Operations. This prior period adjustment reclassifies \$6,034,550 thousand between Unexpended Appropriations and Cumulative Results of Operations.

The A-12 Program Account Receivable was properly recorded in FY 2001 on the Balance Sheet as an asset. The offsetting entry was made to Unexpended Appropriations. The offsetting entry should have been made to Other Liabilities. This reflects the fact that this contract receivable is a non-entity asset, since any collections made under the A-12 contract are to a cancelled appropriation. Collections will be turned over to the Treasury. This prior period adjustment for \$1,483,365 thousand reverses the original offsetting entry to Unexpended Appropriations and records Other Liabilities with Treasury. See other pertinent disclosures in Notes 2, 5, 11 and 15.

A correcting entry for \$8,539,173 thousand was posted in FY 2001 to realign Unexpended Appropriations (Note 18) based upon budgetary accounts to the Balance Sheet Unexpended Appropriations based upon proprietary accounts. The other three items described herein comprise the basis of that correcting entry. This prior period adjustment reverses the effect of the FY 2001 entry.

Environmental Liabilities were properly recognized as a liability in FY 2000; however, the offset was recorded to Unexpended Appropriations. The offsetting entry should have been made to expenses. The offset would then have closed to Cumulative Results of Operations. This prior period adjustment reclassifies \$532,065 thousand between Unexpended Appropriations and Cumulative Results of Operations.

The FY 2002 "Errors and Omissions in Prior Years Accounting Reports" line is a result of the DoDIG directing DON that a prior period adjust be made to remove \$24,765,804 thousand in Operating Materials and Supplies (OM&S) from the Inventory and Related Property line of the FY 2001 DON Financial Statements. In addition, any adjustment needed to reflect that those assets are not included in the FY 2002 DON financial statements also should be made. Therefore, this PPA removes all conventional missiles and torpedoes previously reported as OM&S from the FY 2001 and FY 2002 financial statements. This restatement of the FY 2001 values aligns DON financial statement with the FY 2001 U.S. Government-wide financial statement.

## Imputed Financing

DON financial statements have recognized an imputed financing source for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed financing sources for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).





### Judgment Fund

Treasury provided information related to amounts paid for Judgment Fund liabilities on behalf of the DON, which the DON may or may not be required to repay. Judgment Fund payments made out of the following Treasury appropriations do not require reimbursement, and therefore represent imputed financing to DON: 20X1740, 20X1741, and 20X1742. Only those payments made from Treasury appropriation 20X1743 are required to be repaid by DON.

## NOTE 21.A. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2002

(Amounts in thousands)

	2002	2001
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 61,642,520	\$ 50,965,920
2. Available Borrowing and Contract Authority at the End of the Period	0	0
3. Other Information Related to the Statement of Budgetary Resources		

### Apportionment Categories

(Amounts in thousands)

	Direct Obligations	Reimbursable Obligations	Total
Category A Obligations	\$ 99,307,751	\$ 12,208,795	\$ 111,516,546
Category B Obligations	0	0	0
Exempt From Apportionment	0	0	0
Total	<u>\$ 99,307,751</u>	<u>\$ 12,208,795</u>	<u>\$ 111,516,546</u>

### Undelivered Orders

Undelivered Orders presented in the Statement of Budgetary Resources includes Undelivered Orders-Unpaid for both direct and reimbursable funds. DON has not fully implemented the USSGL in all operational accounting systems.

### Spending Authority from Offsetting Collections

Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the "Adjustments" line on the Statement of Budgetary Resources), are not included in the "Spending Authority From Offsetting Collections and Adjustments" line on the Statement of Budgetary Resources or the "Spending Authority for Offsetting Collections and Adjustments" line on the Statement of Financing.

### Other DON Disclosures

Due to accounting system deficiencies, intragovernmental transactions were not eliminated for the presentation of a Consolidated Statement of Budgetary Resources (SBR). As a result a Disaggregated SBR is presented in the Required Supplementary Information (RSI) section of the Statements.

In FY 2002, DoD treated Foreign Military Sales (FMS) Trust Fund transactions as nonfederal, and are presented as such in the Balance Sheet (BS) and the Statement of Net Cost. Accounts Receivable and Revenues related to FMS are recognized in the SBR. Therefore, reconciling differences exist between the SBR and the BS. OUSD(C) Accounting Policy is currently researching the issue to determine the proper treatment of FMS Trust Fund transactions to ensure proper reporting.

# General Fund Notes to the Principal Statements

In FY 2002, the following two enhancements were made to the Statement of Budgetary Resources to facilitate the reconciliation of information between the Statement of Budgetary Resources, the budget execution reports (SF 133), and the Budget of the U.S. Government:

**Separate Column for Non-budgetary Credit Program Financing Accounts,** This change allows for a clear distinction between budgetary and non-budgetary credit program financing account information. Non-budgetary credit financing accounts are reported separately from the budgetary totals in the Budget of the U.S. Government. Separate reporting on the Statement of Budgetary Resources enhances the reconciliation of the two sets of information.

**Offsetting Receipts line,** Offsetting Receipts are introduced as a new line item in the Statement of Budgetary Resources. These receipts are collections that are credited to the general fund, special fund or trust fund receipt accounts. In addition they represent offsetting receipts distributed to DON. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of U.S. Government. Offsetting receipts must be included in the Statement of Budgetary Resources to reconcile it to information in the Budget of the U.S. Government.

Appropriations received in the Statement of Budgetary Resources (SBR) differs from Appropriations received in the Statement of Changes in Net Position by \$36,744 thousand, due to the reporting of Trust Fund investments that are included as appropriations received in the SBR.

The Surcharge Commissary Store Trust Fund (8421) was closed in FY 2000. Remaining residual unobligated balances were transferred subsequent to FY 2001 year-end to the Midshipman's Store Trust Fund (8423). As a result of this transfer the comparative amounts on the Combined Statement of Budgetary Resources FY 2001 ending Unobligated balances, and Obligated balances reconcile to the FY 2002 beginning Unobligated and Obligated balances by the amounts of \$435 thousand and \$308 thousand respectively. The Midshipman's Store Trust Fund was subsequently closed in FY 2002 with no residual balances.

## NOTE 21.B. DISCLOSURES RELATED TO PROBLEM DISBURSEMENTS, IN-TRANSIT DISBURSEMENTS AND SUSPENSE/BUDGET CLEARING ACCOUNTS

As of September 30,  
(Amounts in thousands)

	September 2000	September 2001	September 2002	(Decrease)/ Increase from 2001 to 2002
<b>1. Total Problem Disbursements, Absolute</b>				
A. Unmatched Disbursements, (UMDs)	\$ 874,000	\$ 366,000	\$ 352,000	\$ (14,000)
B. Negative Unliquidated Obligations (NULO)	718,000	69,000	41,000	(28,000)
<b>2. Total In-transit Disbursements, Net</b>	\$ 530,000	\$ 65,256	\$ 51,551	\$ (13,705)

### 3. Other Information Related to Problem Disbursements and In-transit Disbursements:

#### Definitions

Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign.

- UMDs occur when payments do not match to a corresponding obligation in the accounting system.
- NULOs occur when payments have a valid obligation but the payment is greater than the amount of the



obligation recorded in the official accounting system. These payments use available funds for valid receiving reports on delivered goods and services under valid contracts.

- In-Transits represents the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but not yet posted in an accounting system.

The DON has \$ 352,000 thousand in aged UMDs, \$41,000 thousand in aged NULO's, and \$ 51,551 in aged in-transit disbursements that represent disbursements of DON funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and based on valid receiving reports for goods and services delivered under valid contracts. The problem disbursements and in-transit disbursements arise when the DON's various contracting, disbursing, and accounting systems fail to match the data necessary to properly account for the disbursement transactions in all applicable accounting systems. The DON has efforts underway to improve the systems and to resolve all previous problem disbursements and process all in-transit disbursements. The elimination of both Problem Disbursements and aged in-transits is one of the highest financial management priorities of the USD(C). Problem Disbursements and In-Transits represent a significant financial management concern since: (1) accuracy of accounting reports is affected; (2) availability of funds is more difficult to determine; and (3) the required research and resolution process becomes much more labor intensive as the age of the problem disbursements increase. As of 30 September 2002, these efforts resulted in a decrease (net) of \$13,705 thousand in In-Transit Disbursements, an decrease (absolute) of \$ 14,000 thousand in UMD's and a decrease (absolute) of \$ 28,000 thousand in NULO's over the balances reported as of 30 September 2001.

The following table presents aged unmatched disbursements, negative unliquidated obligations, and in-transit disbursements as of 30 September 2002 for the DON, including Foreign Military Sales:

(Amounts in thousands)

<b>Aging</b>	<b>In-Transit Disbursements</b>	<b>Unmatched Disbursements (UMD's)</b>	<b>Negative Unliquidated Obligations (NULO's)</b>
0-30 Days	\$ 687,198	\$ 152,000	\$ 15,000
31-60 Days	138,834	62,000	5,000
61-120 Days	102,500	52,000	5,000
121-180 Days	841	15,000	1,000
181-360 Days	45,542	37,000	7,000
Over 360 Days	174,048	34,000	8,000
<b>Total – Absolute</b>	<b>\$ 1,148,963</b>	<b>\$ 352,000</b>	<b>\$ 41,000</b>
<b>Total – Net</b>	<b>\$ 51,551</b>	<b>\$ 248,000</b>	<b>\$ 42,000</b>



# General Fund Notes to the Principal Statements

## 2. Suspense/Budget Clearing Accounts

As of September 30,  
(Amounts in thousands)

### 4. Suspense/Budget Clearing Accounts, Net

Account	September 2000	September 2001	September 2002	(Decrease)/ Increase from FY 01 to FY 02
F3875	\$ 96,358	\$ 43,344	\$ 112,731	\$ 69,387
F3880	2,118	(1,749)	2,510	4,259
F3882	0	0	23,966	23,966
F3885	556,213	801,469	445,921	(355,548)
F3886	47	(1)	622	623
<b>Total</b>	<u>\$ 654,736</u>	<u>\$ 843,063</u>	<u>\$ 585,750</u>	<u>\$ (257,313)</u>

### 5. Other Information Related to Suspense/Budget Clearing Accounts

DON has made a concerted effort to reduce balances in the suspense and budget clearing accounts related to disbursements that are disclosed on line 4 of this note. Additionally, DON is establishing policies and procedures to ensure accurate and consistent use of these accounts. The information presented indicates the significant reductions DON has achieved in the various suspense/ budget clearing accounts. On 30 September of each fiscal year, all of the uncleared suspense/budget clearing account balances are reduced to zero (as required by the Department of the Treasury) by transferring the balances to proper appropriation accounts. On 1 October of the following year, the uncleared suspense/clearing account balances are only reestablished for transactions that were less than 60 days old at the end of the FY (excluding transactions dated before 1 January 2001).

The suspense accounts F3875/3885/3886 temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation. Each suspense account represents the source of transaction coming from, i.e. Disbursing Officer's (DO) suspense (F3875), Interfund/OPAC (F3885), and Payroll (TSP) (F3886) suspense. DFAS-CL has implemented several initiatives to improve the suspense clearing process and works with DOs to reduce suspense. Matching criteria are currently being developed that will automate the manual process now used to clear Interfund transactions from suspense. These initiatives should result in reduced suspense balances at year-end. The suspense F3880 represents the Treasury checks that have either been lost by the payee and need reissued or never cashed by the payee, cancelled by Treasury and require to be transferred to the original appropriation in accordance to the DoD FMR, Volume 5, Chapter 8. Account F3882 Uniformed Services Thrift Savings Plan was first established in FY 2002, so there will be not be any trend information for FY 2001 and prior.







## NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF FINANCING

### Other Information Related to the Statement of Financing

The Statement of Financing is presented as combined or combining statements rather than consolidated statements due to intragovernmental transactions not being eliminated. Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the "Adjustments" line on the Statement of Budgetary Resources), are not included in "Spending Authority From Offsetting Collections and Adjustments" line on the Statement of Budgetary Resources or on the Statement of Financing.

The Statement of Financing was expanded to further articulate and detail the relationship between new obligations from budgetary accounting and net cost of operation from proprietary accounting. Some items that were reported last year as a single line were subdivided to reflect its components. Several new line items were added to separately identify and further explain the use of resources to finance net obligations or net cost of operations. This change notes key differences between the net obligations and net cost of operations.

Budgetary data is not in agreement with proprietary expenses and assets capitalized. This causes a difference in net cost between the Statement of Net Cost and the Statement of Financing. Adjustments are posted to the Statement of Financing for these differences.

## NOTE 23. DISCLOSURES RELATED TO THE STATEMENT OF CUSTODIAL ACTIVITY

Not applicable.

## NOTE 24. OTHER DISCLOSURES

### NOTE 24.A. OTHER DISCLOSURES - LEASES

#### 1. ENTITY AS LESSEE-Operating Leases

As of September 30,

(Amounts in thousands)

	2002 Asset Category				2001
	Equipment and Facilities	Military Family Housing	Motor Vehicles	Total	Total
Future payments Due: <u>Fiscal Year</u>					
1 (CY+1)	\$ 10,933	\$ 0	\$ 0	\$ 10,933	\$ 12,520
2 (CY+2)	9,220	0	0	9,220	15,698
3 (CY+3)	9,464	0	0	9,464	13,307
4 (CY+4)	9,619	0	0	9,619	11,249
5 (CY+5)	8,955	0	0	8,955	0
After 5 Years	0				0
Total Future Lease Payments Due	<u>\$ 48,191</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 48,191</u>	<u>\$ 52,774</u>

# General Fund Notes to the Principal Statements

## **Other Information Related to Entity as Lessee – Operating Leases**

### **Description of Leases**

Asset Category 1, Equipment and Facilities, in the amount of \$48,191 thousand represents \$42,412 thousand Land and Buildings, \$663 thousand equipment, and \$5,117 thousand Other.

### **Other Information**

#### **Definitions**

Lessee – A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.

Operating Lease – A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expenses over the lease term as it becomes payable.

## **ENTITY AS LESSOR:**

None.

## **Other Information Related to Entity as Lessor – Operating Leases**

### **Other Information**

#### **Definitions**

Lessor – A person or entity who owns property (for example, real estate or equipment) to which a lessee receives use and possession in exchange for a payment of funds.

Capital Lease – A lease that transfers substantially all the benefits and risk of ownership. The lease is recorded as an asset by the lessee and is amortized in a manner similar to depreciating assets.

Operating Lease – A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.

## **NOTE 24.B. OTHER DISCLOSURES**

Not applicable.





Department of the Navy

# GENERAL FUND SUPPORTING CONSOLIDATING/COMBINING STATEMENTS



Department of Defense  
Department of the Navy  
**CONSOLIDATING BALANCE SHEET**  
As of September 30, 2002 and 2001  
(\$ in thousands)

<b>ASSETS (Note 2)</b>	<b>Navy</b>	<b>Marine Corps</b>	<b>Combined Total</b>	<b>Eliminations</b>
Intragovernmental:				
Fund Balance with Treasury (Note 3)	\$ 65,347,754	\$ 2,902,201	\$ 68,249,955	\$ 0
Investments (Note 4)	9,625	0	9,625	0
Accounts Receivable (Note 5)	731,480	74,728	806,208	63,741
Other Assets (Note 6)	67,063	18	67,081	0
Total Intragovernmental Assets	66,155,922	2,976,947	69,132,869	63,741
Cash and Other Monetary Assets (Note 7)	129,556	1,108	130,664	0
Accounts Receivable (Note 5)	2,725,732	74,155	2,799,887	0
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	32,544,435	459,160	33,003,595	0
General Property, Plant and Equipment (Note 10)	21,406,959	4,702,478	26,109,437	0
Other Assets (Note 6)	4,561,695	218,767	4,780,462	0
<b>TOTAL ASSETS</b>	<b>\$ 127,524,299</b>	<b>\$ 8,432,615</b>	<b>\$ 135,956,914</b>	<b>\$ 63,741</b>
<b>LIABILITIES (Note 11)</b>				
Intragovernmental:				
Accounts Payable (Note 12)	\$ 668,444	\$ 143,576	\$ 812,020	\$ 63,741
Debt (Note 13)	91	36	127	0
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	3,430,322	59,181	3,489,503	0
Total Intragovernmental Liabilities	4,098,857	202,793	4,301,650	63,741
Accounts Payable (Note 12)	1,404,238	106,091	1,510,329	0
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,332,273	214,102	1,546,375	0
Environmental Liabilities (Note 14)	15,469,073	0	15,469,073	0
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 and Note 16)	3,820,475	365,012	4,185,487	0
<b>TOTAL LIABILITIES</b>	<b>\$ 26,124,916</b>	<b>\$ 887,998</b>	<b>\$ 27,012,914</b>	<b>\$ 63,741</b>
<b>NET POSITION</b>				
Unexpended Appropriations (Note 18)	61,818,979	2,955,349	64,774,328	0
Cumulative Results of Operations	39,580,404	4,589,268	44,169,672	0
<b>TOTAL NET POSITION</b>	<b>\$ 101,399,383</b>	<b>\$ 7,544,617</b>	<b>\$ 108,944,000</b>	<b>\$ 0</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 127,524,299</b>	<b>\$ 8,432,615</b>	<b>\$ 135,956,914</b>	<b>\$ 63,741</b>

The accompanying notes are an integral part of these financial statements.

# Supporting Consolidating/Combining Statements

Department of Defense  
Department of the Navy  
**CONSOLIDATING BALANCE SHEET**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	2002	Restated 2001	2001
<b>ASSETS (Note 2)</b>			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	\$ 68,249,955	\$ 66,338,979	\$ 66,338,979
Investments (Note 4)	9,625	9,517	9,517
Accounts Receivable (Note 5)	742,467	1,042,814	1,042,814
Other Assets (Note 6)	67,081	47,170	47,170
Total Intragovernmental Assets	<u>69,069,128</u>	<u>67,438,480</u>	<u>67,438,480</u>
Cash and Other Monetary Assets (Note 7)	130,664	160,589	160,589
Accounts Receivable (Note 5)	2,799,887	1,682,230	1,682,230
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	33,003,595	36,295,749	61,061,553
General Property, Plant and Equipment (Note 10)	26,109,437	24,961,487	24,961,487
Other Assets (Note 6)	4,780,462	6,056,832	6,056,832
<b>TOTAL ASSETS</b>	<u>\$ 135,893,173</u>	<u>\$ 136,595,367</u>	<u>\$ 161,361,171</u>
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 748,279	\$ 1,002,282	\$ 1,002,282
Debt (Note 13)	127	61	61
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	3,489,503	2,549,550	1,066,185
Total Intragovernmental Liabilities	<u>4,237,909</u>	<u>3,551,893</u>	<u>2,068,528</u>
Accounts Payable (Note 12)	1,510,329	2,075,026	2,075,026
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,546,375	1,595,890	1,595,890
Environmental Liabilities (Note 14)	15,469,073	15,584,458	15,584,458
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	4,185,487	3,610,899	3,610,899
<b>TOTAL LIABILITIES</b>	<u>\$ 26,949,173</u>	<u>\$ 26,418,166</u>	<u>\$ 24,934,801</u>
<b>NET POSITION</b>			
Unexpended Appropriations (Note 18)	64,774,328	63,535,842	\$ 61,982,518
Cumulative Results of Operations	44,169,672	46,641,359	74,443,852
<b>TOTAL NET POSITION</b>	<u>\$ 108,944,000</u>	<u>\$ 110,177,201</u>	<u>\$ 136,426,370</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 135,893,173</u>	<u>\$ 136,595,367</u>	<u>\$ 161,361,171</u>

The accompanying notes are an integral part of these financial statements.



Department of Defense  
Department of the Navy  
**CONSOLIDATING STATEMENT OF NET COST**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	Navy	Marine Corps	Combined Total	Eliminations
<b>Program Costs</b>				
<b>A. Military Personnel</b>				
Intragovernmental Gross Costs	\$ 3,597,493	\$ 1,473,337	\$ 5,070,830	\$ 111
(Less: Intragovernmental Earned Revenue)	(189,587)	(19,602)	(209,189)	0
Intragovernmental Net Costs	<u>3,407,906</u>	<u>1,453,735</u>	<u>4,861,641</u>	<u>111</u>
Gross Costs With the Public	18,682,797	6,378,837	25,061,634	0
(Less: Earned Revenue From the Public)	(54,974)	(13,106)	(68,080)	0
Net Costs With the Public	<u>18,627,823</u>	<u>6,365,731</u>	<u>24,993,554</u>	<u>0</u>
Net Program Costs	<u>\$ 22,035,729</u>	<u>\$ 7,819,466</u>	<u>\$ 29,855,195</u>	<u>\$ 111</u>
<b>B. Operation and Maintenance</b>				
Intragovernmental Gross Costs	\$ 19,268,243	\$ 1,489,097	\$ 20,757,340	\$ 183,482
(Less: Intragovernmental Earned Revenue)	(696,024)	(328,274)	(1,024,298)	(199,512)
Intragovernmental Net Costs	<u>18,572,219</u>	<u>1,160,823</u>	<u>19,733,042</u>	<u>(16,030)</u>
Gross Costs With the Public	12,909,344	2,305,864	15,215,208	0
(Less: Earned Revenue From the Public)	(954,744)	(76,348)	(1,031,092)	0
Net Costs With the Public	<u>11,954,600</u>	<u>2,229,516</u>	<u>14,184,116</u>	<u>0</u>
Net Program Costs	<u>\$ 30,526,819</u>	<u>\$ 3,390,339</u>	<u>\$ 33,917,158</u>	<u>\$ (16,030)</u>
<b>C. Procurement</b>				
Intragovernmental Gross Costs	\$ 4,049,743	\$ 58,469	\$ 4,108,212	\$ 234
(Less: Intragovernmental Earned Revenue)	(100,053)	0	(100,053)	0
Intragovernmental Net Costs	<u>3,949,690</u>	<u>58,469</u>	<u>4,008,159</u>	<u>234</u>
Gross Costs With the Public	23,715,709	575,934	24,291,643	0
(Less: Earned Revenue From the Public)	(463,320)	0	(463,320)	0
Net Costs With the Public	<u>23,252,389</u>	<u>575,934</u>	<u>23,828,323</u>	<u>0</u>
Net Program Costs	<u>\$ 27,202,079</u>	<u>\$ 634,403</u>	<u>\$ 27,836,482</u>	<u>\$ 234</u>
<b>D. Research, Development, Test &amp; Evaluation</b>				
Intragovernmental Gross Costs	\$ 42,431	\$ 0	\$ 42,431	\$ 15,624
(Less: Intragovernmental Earned Revenue)	(1,736)	0	(1,736)	(2)
Intragovernmental Net Costs	<u>40,695</u>	<u>0</u>	<u>40,695</u>	<u>15,622</u>
Gross Costs With the Public	10,376,773	0	10,376,773	0
(Less: Earned Revenue From the Public)	(53,676)	0	(53,676)	0
Net Costs With the Public	<u>10,323,097</u>	<u>0</u>	<u>10,323,097</u>	<u>0</u>
Net Program Costs	<u>\$ 10,363,792</u>	<u>\$ 0</u>	<u>\$ 10,363,792</u>	<u>\$ 15,622</u>

The accompanying notes are an integral part of these financial statements.





# Supporting Consolidating/Combining Statements

Department of Defense

Department of the Navy

## CONSOLIDATING STATEMENT OF NET COST

As of September 30, 2002 and 2001

(\$ in thousands)

	2002	Restated 2001	2001
<b>Program Costs</b>			
<b>A. Military Personnel</b>			
Intragovernmental Gross Costs	\$ 5,070,719	\$ 4,451,006	\$ 4,451,006
(Less: Intragovernmental Earned Revenue)	(209,189)	(144,552)	(144,552)
Intragovernmental Net Costs	<u>4,861,530</u>	<u>4,306,454</u>	<u>4,306,454</u>
Gross Costs With the Public	25,061,634	22,539,243	22,539,243
(Less: Earned Revenue From the Public)	(68,080)	(112,567)	(112,567)
Net Costs With the Public	<u>24,993,554</u>	<u>22,426,676</u>	<u>22,426,676</u>
Net Program Costs	<u>\$ 29,855,085</u>	<u>\$ 26,733,130</u>	<u>\$ 26,733,130</u>
<b>B. Operation and Maintenance</b>			
Intragovernmental Gross Costs	\$ 20,573,858	\$ 16,544,475	\$ 16,544,475
(Less: Intragovernmental Earned Revenue)	(824,786)	(1,493,767)	(1,493,767)
Intragovernmental Net Costs	<u>19,749,072</u>	<u>15,050,708</u>	<u>15,050,708</u>
Gross Costs With the Public	15,215,208	19,400,086	19,400,086
(Less: Earned Revenue From the Public)	(1,031,092)	(685,738)	(685,738)
Net Costs With the Public	<u>14,184,116</u>	<u>18,714,348</u>	<u>18,714,348</u>
Net Program Costs	<u>\$ 33,933,188</u>	<u>\$ 33,765,056</u>	<u>\$ 33,765,056</u>
<b>C. Procurement</b>			
Intragovernmental Gross Costs	\$ 4,107,978	\$ 3,428,497	\$ 3,428,497
(Less: Intragovernmental Earned Revenue)	(100,053)	(566,858)	(566,858)
Intragovernmental Net Costs	<u>4,007,925</u>	<u>2,861,639</u>	<u>2,861,639</u>
Gross Costs With the Public	24,291,643	22,538,324	22,538,324
(Less: Earned Revenue From the Public)	(463,320)	(236,509)	(236,509)
Net Costs With the Public	<u>23,828,323</u>	<u>22,301,815</u>	<u>22,301,815</u>
Net Program Costs	<u>\$ 27,836,248</u>	<u>\$ 25,163,454</u>	<u>\$ 25,163,454</u>
<b>D. Research, Development, Test &amp; Evaluation</b>			
Intragovernmental Gross Costs	\$ 26,807	\$ 2,413,244	\$ 2,413,244
(Less: Intragovernmental Earned Revenue)	(1,734)	(32,312)	(32,312)
Intragovernmental Net Costs	<u>25,073</u>	<u>2,380,932</u>	<u>2,380,932</u>
Gross Costs With the Public	10,376,773	7,160,451	7,160,451
(Less: Earned Revenue From the Public)	(53,676)	(71,710)	(71,710)
Net Costs With the Public	<u>10,323,097</u>	<u>7,088,741</u>	<u>7,088,741</u>
Net Program Costs	<u>\$ 10,348,170</u>	<u>\$ 9,469,673</u>	<u>\$ 9,469,673</u>

The accompanying notes are an integral part of these financial statements.



Department of Defense  
Department of the Navy  
**CONSOLIDATING STATEMENT OF NET COST**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	<b>Navy</b>	<b>Marine Corps</b>	<b>Combined Total</b>	<b>Eliminations</b>
<b>E. Military Construction/Family Housing</b>				
Intragovernmental Gross Costs	\$ 62,095	\$ 0	\$ 62,095	\$ 41
(Less: Intragovernmental Earned Revenue)	(73,804)	0	(73,804)	0
Intragovernmental Net Costs	(11,709)	0	(11,709)	41
Gross Costs With the Public	647,686	0	647,686	0
(Less: Earned Revenue From the Public)	(69,133)	0	(69,133)	0
Net Costs With the Public	578,553	0	578,553	0
Net Program Costs	\$ 566,844	\$ 0	\$ 566,844	\$ 41
<b>F. Other</b>				
Intragovernmental Gross Costs	\$ 69,696	\$ 0	\$ 69,696	\$ 23
(Less: Intragovernmental Earned Revenue)	(367)	0	(367)	0
Intragovernmental Net Costs	69,329	0	69,329	23
Gross Costs With the Public	43,076	0	43,076	0
(Less: Earned Revenue From the Public)	(36,348)	0	(36,348)	0
Net Costs With the Public	6,728	0	6,728	0
Net Program Costs	\$ 76,057	\$ 0	\$ 76,057	\$ 23
<b>G. Total Program Costs</b>				
Intragovernmental Gross Costs	\$ 27,089,701	\$ 3,020,902	\$ 30,110,603	\$ 199,514
(Less: Intragovernmental Earned Revenue)	(1,061,571)	(347,876)	(1,409,447)	(199,514)
Intragovernmental Net Costs	26,028,130	2,673,026	28,701,156	0
Gross Costs With the Public	66,375,386	9,260,634	75,636,020	0
(Less: Earned Revenue From the Public)	(1,632,195)	(89,454)	(1,721,649)	0
Net Costs With the Public	64,743,191	9,171,180	73,914,371	0
Net Program Costs	\$ 90,771,321	\$ 11,844,206	\$ 102,615,527	\$ 0
<b>Cost Not Assigned to Programs</b>	0	0	0	0
<b>(Less: Earned Revenue Not Attributable to Programs)</b>	0	0	0	0
<b>Net Cost of Operations</b>	<u>\$ 90,771,321</u>	<u>\$ 11,844,206</u>	<u>\$ 102,615,527</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements.



# Supporting Consolidating/Combining Statements

Department of Defense  
Department of the Navy

## CONSOLIDATING STATEMENT OF NET COST

As of September 30, 2002 and 2001

(\$ in thousands)

	2002	Restated 2001	2001
<b>E. Military Construction/Family Housing</b>			
Intragovernmental Gross Costs	\$ 62,054	\$ 68,741	\$ 68,741
(Less: Intragovernmental Earned Revenue)	(73,804)	(222,166)	(222,166)
Intragovernmental Net Costs	(11,750)	(153,425)	(153,425)
Gross Costs With the Public	647,686	357,946	357,946
(Less: Earned Revenue From the Public)	(69,133)	(101,383)	(101,383)
Net Costs With the Public	578,553	256,563	256,563
Net Program Costs	\$ 566,803	\$ 103,138	\$ 103,138
<b>F. Other</b>			
Intragovernmental Gross Costs	\$ 69,673	\$ 47,806	\$ 47,806
(Less: Intragovernmental Earned Revenue)	(367)	(542)	(542)
Intragovernmental Net Costs	69,306	47,264	47,264
Gross Costs With the Public	43,076	48,565	48,565
(Less: Earned Revenue From the Public)	(36,348)	(21,497)	(21,497)
Net Costs With the Public	6,728	27,068	27,068
Net Program Costs	\$ 76,034	\$ 74,332	\$ 74,332
<b>G. Total Program Costs</b>			
Intragovernmental Gross Costs	\$ 29,911,089	\$ 26,953,769	\$ 26,953,769
(Less: Intragovernmental Earned Revenue)	(1,209,933)	(2,460,197)	(2,460,197)
Intragovernmental Net Costs	28,701,156	24,493,572	24,493,572
Gross Costs With the Public	75,636,020	72,044,614	72,044,614
(Less: Earned Revenue From the Public)	(1,721,649)	(1,229,404)	(1,229,404)
Net Costs With the Public	73,914,371	70,815,210	70,815,210
Net Program Costs	\$ 102,615,527	\$ 95,308,782	\$ 95,308,782
<b>Cost Not Assigned to Programs</b>	0	0	0
<b>(Less: Earned Revenue Not Attributable to Programs)</b>	0	0	0
<b>Net Cost of Operations</b>	<u>\$ 102,615,527</u>	<u>\$ 95,308,782</u>	<u>\$ 95,308,782</u>



Department of Defense  
Department of the Navy

**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**

As of September 30, 2002 and 2001

(\$ in thousands)

	Navy	Marine Corps	Combined Total	Eliminations
<b>Cumulative Results of Operations</b>				
Beginning Balances	\$ 42,280,550	\$ 4,360,809	\$ 46,641,359	\$ 0
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	42,280,550	4,360,809	46,641,359	0
Budgetary Financing Sources:				
Appropriations received	0	0	0	\$ 0
Appropriations transferred-in/out (+/-)	0	0	0	0
Other adjustments (rescission, etc) (+/-)	0	0	0	0
Appropriations used	87,594,558	12,018,117	99,612,675	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	4,733	1,138	5,871	0
Imputed financing from costs absorbed by others	471,884	53,410	525,294	0
Other (+/-)	0	0	0	0
Total Financing Sources	88,071,175	12,072,665	100,143,840	0
Net Cost of Operations (+/-)	90,771,321	11,844,206	102,615,527	0
Ending Balances	<u>\$ 39,580,404</u>	<u>\$ 4,589,268</u>	<u>\$ 44,169,672</u>	<u>\$ 0</u>
<b>Unexpended Appropriations</b>				
Beginning Balances	\$ 60,572,763	\$ 2,963,079	\$ 63,535,842	\$ 0
Prior period adjustments (+/-)	0	0	0	0
Beginning Balances, as adjusted	60,572,763	2,963,079	63,535,842	0
Budgetary Financing Sources:				
Appropriations received	87,658,419	11,866,039	99,524,458	0
Appropriations transferred-in/out (+/-)	2,447,218	280,090	2,727,308	0
Other adjustments (rescission, etc) (+/-)	(1,264,863)	(98,712)	(1,363,575)	0
Appropriations used	(87,594,558)	(12,055,147)	(99,649,705)	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0	0
Imputed financing from costs absorbed by others	0	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	1,246,216	(7,730)	1,238,486	0
Net Cost of Operations (+/-)	0	0	0	0
Ending Balances	<u>\$ 61,818,979</u>	<u>\$ 2,955,349</u>	<u>\$ 64,774,328</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements.



# Supporting Consolidating/Combining Statements

Department of Defense  
Department of the Navy

## CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2002 and 2001

(\$ in thousands)

	2002	Restated 2001	2001
<b>Cumulative Results of Operations</b>			
Beginning Balances	\$ 46,641,359	\$ 43,816,182	\$ 43,816,182
Prior period adjustments (+/-)	0	4,039,166	31,841,659
Beginning Balances, as adjusted	<u>46,641,359</u>	<u>47,855,348</u>	<u>75,657,841</u>
Budgetary Financing Sources:			
Appropriations received	\$ 0	\$ 0	\$ 0
Appropriations transferred-in/out (+/-)	0	0	0
Other adjustments (rescission, etc) (+/-)	0	0	0
Appropriations used	99,612,675	93,245,566	93,245,566
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	5,871	358,769	358,769
Imputed financing from costs absorbed by others	525,294	490,458	490,458
Other (+/-)	0	0	0
Total Financing Sources	<u>100,143,840</u>	<u>\$ 94,094,793</u>	<u>\$ 94,094,793</u>
Net Cost of Operations (+/-)	\$ 102,615,527	\$ 95,308,782	\$ 95,308,782
Ending Balances	<u>\$ 44,169,672</u>	<u>\$ 46,641,359</u>	<u>\$ 74,443,852</u>
<b>Unexpended Appropriations</b>			
Beginning Balances	\$ 63,535,842	\$ 64,902,672	\$ 64,902,672
Prior period adjustments (+/-)	0	1,553,324	0
Beginning Balances, as adjusted	<u>63,535,842</u>	<u>\$ 66,455,996</u>	<u>\$ 64,902,672</u>
Budgetary Financing Sources:			
Appropriations received	\$ 99,524,458	\$ (2,920,154)	\$ (2,920,154)
Appropriations transferred-in/out (+/-)	2,727,308	0	0
Other adjustments (rescission, etc) (+/-)	(1,363,575)	0	0
Appropriations used	(99,649,705)	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers-in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
Total Financing Sources	<u>\$ 1,238,486</u>	<u>\$ (2,920,154)</u>	<u>\$ (2,920,154)</u>
Net Cost of Operations (+/-)	\$ 0	\$ 0	\$ 0
Ending Balances	<u>\$ 64,774,328</u>	<u>\$ 63,535,842</u>	<u>\$ 61,982,518</u>

The accompanying notes are an integral part of these financial statements.



Department of Defense  
Department of the Navy  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
As of September 30, 2002 and 2001  
(\$ in thousands)

**BUDGETARY FINANCING ACCOUNTS**  
**BUDGETARY RESOURCES**

	<b>Navy</b>	<b>Marine Corps</b>	<b>2002</b>	<b>Restated 2001</b>	<b>2001</b>
Budget Authority:					
Appropriations Received	\$ 87,695,163	\$ 11,866,039	\$ 99,561,202	\$ 94,848,409	\$ 94,848,409
Borrowing Authority	0	0	0	0	0
Contract Authority	0	0	0	0	0
Net transfers (+/-)	2,408,424	267,823	2,676,247	387,346	387,346
Other	0	0	0	0	0
Unobligated Balance:					
Beginning of period	13,384,503	451,325	13,835,828	13,624,084	13,624,084
Net transfers, actual (+/-)	38,794	12,267	51,061	365,723	365,723
Anticipated Transfers Balances	0	0	0	0	0
Spending Authority from Offsetting Collections:					
Earned					
Collected	5,951,549	538,413	6,489,962	4,878,546	4,878,546
Receivable from Federal sources	(255,512)	(7,941)	(263,453)	915,971	915,971
Change in unfilled customer orders					
Advances received	1,286	0	1,286	4,165	4,165
Without advance from Federal sources	158,569	27,949	186,518	(201,723)	(201,723)
Anticipated for the rest of year, without advances	0	0	0	0	0
Transfers from trust funds	0	0	0	0	0
Subtotal	5,855,892	558,421	6,414,313	5,596,959	5,596,959
Recoveries of prior year obligations	2,044,987	241,847	2,286,834	3,277,598	3,277,598
Temporarily not available pursuant to Public Law	0	0	0	0	0
Permanently not available	(1,265,353)	(134,603)	(1,399,956)	(1,773,918)	(1,773,918)
<b>Total Budgetary Resources</b>	<u>\$ 110,162,410</u>	<u>\$ 13,263,119</u>	<u>\$ 123,425,529</u>	<u>\$ 116,326,201</u>	<u>\$ 116,326,201</u>



# Supporting Consolidating/Combining Statements

Department of Defense  
Department of the Navy

## COMBINING STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2002 and 2001

(\$ in thousands)

### STATUS OF BUDGETARY RESOURCES

	Navy	Marine Corps	2002	Restated 2001	2001
Obligations Incurred:					
Direct	\$ 86,885,832	\$ 12,421,919	\$ 99,307,751	\$ 95,682,240	\$ 95,682,240
Reimbursable	11,634,487	574,308	12,208,795	6,807,699	6,807,699
Subtotal	98,520,319	12,996,227	111,516,546	102,489,939	102,489,939
Unobligated balance:					
Apportioned	10,468,911	121,656	10,590,567	12,391,407	12,391,407
Exempt from apportionment	0	0	0	0	0
Other available	0	0	0	0	0
Unobligated Balances Not Available	1,173,180	145,236	1,318,416	1,444,855	1,444,855
Total, Status of Budgetary Resources	<u>\$ 110,162,410</u>	<u>\$ 13,263,119</u>	<u>\$ 123,425,529</u>	<u>\$ 116,326,201</u>	<u>\$ 116,326,201</u>

### RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:

Obligated Balance, Net-beginning of period	\$ 49,357,568	\$ 2,976,282	\$ 52,333,850	\$ 48,385,598	\$ 48,385,598
Obligated Balance transferred, net (+/-)	0	0	0	0	0
Obligated Balance, net-end of period:					
Accounts Receivable	(1,875,766)	(233,608)	(2,109,374)	(2,372,828)	(2,372,828)
Unfilled customer order from Federal sources	(2,061,109)	33,916	(2,027,193)	(1,840,675)	(1,840,675)
Undelivered Orders	53,198,000	2,435,755	55,633,755	50,942,280	50,942,280
Accounts Payable	4,203,754	399,246	4,603,000	5,604,765	5,604,765
Outlays:					
Disbursements	92,464,965	13,075,345	105,540,310	94,550,149	94,550,149
Collections	(5,952,836)	(538,413)	(6,491,249)	(4,882,711)	(4,882,711)
Subtotal	86,512,129	12,536,932	99,049,061	89,667,438	89,667,438
Less: Offsetting receipts	(213,345)	0	(213,345)	0	0
<b>Net Outlays</b>	<u>\$ 86,298,784</u>	<u>\$ 12,536,932</u>	<u>\$ 98,835,716</u>	<u>\$ 89,667,438</u>	<u>\$ 89,667,438</u>





Department of Defense  
Department of the Navy  
**COMBINING STATEMENT OF FINANCING**  
As of September 30, 2002 and 2001  
(\$ in thousands)

**Resources Used to Finance Activities:**

	<b>Navy</b>	<b>Marine Corps</b>	<b>2002</b>
<b>Budgetary Resources Obligated</b>			
Obligations Incurred	\$ 98,520,319	\$ 12,996,227	\$ 111,516,546
Less: Spending Authority from offsetting collections and recoveries (-)	(7,900,880)	(800,268)	(8,701,148)
Obligations net of offsetting collections and recoveries	90,619,439	12,195,959	102,815,398
Less: Offsetting receipts (-)	(213,345)	0	(213,345)
Net obligations	90,406,094	12,195,959	102,602,053
<b>Other Resources</b>			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	471,884	53,410	525,294
Other (+/-)	0	0	0
Net other resources used to finance activities	471,884	53,410	525,294
Total resources used to finance activities	\$ 90,877,978	\$ 12,249,369	\$ 103,127,347

**Resources Used to Finance Items not Part of the Net Cost of Operations:**

Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered orders (-)	\$ (10,471,615)	\$ (204,652)	\$ (10,676,267)
Unfilled Customer Orders	159,856	27,949	187,805
Resources that fund expenses recognized in prior periods	(611,620)	(8,542)	(620,162)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0
Resources that finance the acquisition of assets	7,487,846	0	7,487,846
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations			
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0	0
Other (+/-)	0	0	0
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>(3,435,533)</b>	<b>(185,245)</b>	<b>(3,620,778)</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ 87,442,445</b>	<b>\$ 12,064,124</b>	<b>\$ 99,506,569</b>



The accompanying notes are an integral part of these financial statements.

# Supporting Consolidating/Combining Statements

Department of Defense  
Department of the Navy

## COMBINING STATEMENT OF FINANCING

As of September 30, 2002 and 2001

(\$ in thousands)

### Resources Used to Finance Activities:

	Restated 2001	2001
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 102,489,939	\$ 102,489,939
Less: Spending Authority from offsetting collections and recoveries (-)	(8,874,558)	(8,874,558)
Obligations net of offsetting collections and recoveries	93,615,381	93,615,381
Less: Offsetting receipts (-)	(22,039)	(22,039)
Net obligations	93,593,342	93,593,342
<b>Other Resources</b>		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	353,201	353,201
Imputed financing from costs absorbed by others	490,458	490,458
Other (+/-)	0	0
Net other resources used to finance activities	843,659	843,659
Total resources used to finance activities	\$ 94,437,001	\$ 94,437,001

### Resources Used to Finance Items not Part of the Net Cost of Operations:

Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered orders (-)	\$ (142,028)	\$ (142,028)
Unfilled Customer Orders	(197,557)	(197,557)
Resources that fund expenses recognized in prior periods	(65,407)	(65,407)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0
Resources that finance the acquisition of assets	(656,354)	(656,354)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations		
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0
Other (+/-)	0	0
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>(1,061,346)</b>	<b>(1,061,346)</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ 93,375,655</b>	<b>\$ 93,375,655</b>



Department of Defense  
Department of the Navy

## COMBINING STATEMENT OF FINANCING

As of September 30, 2002 and 2001  
(\$ in thousands)

### Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

#### Components Requiring or Generating Resources in Future Periods:

	Navy	Marine Corps	2002
Increase in annual leave liability	\$ 263,070	\$ 0	\$ 263,070
Increase in environmental and disposal liability	595,543	0	595,543
Upward/Downward reestimates of credit subsidy expense	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0
Other (+/-)	79,659	37,936	117,595
Total components of Net Cost of Operations that will require or generate resources in future periods	938,272	37,936	976,208

#### Components not Requiring or Generating Resources:

Depreciation and amortization	760,996	155,364	916,360
Revaluation of assets and liabilities (+/-)	(1,228,479)	(455,887)	(1,684,366)
Other (+/-)	2,858,087	42,669	2,900,756
Total components of Net Cost of Operations that will not require or generate resources	\$ 2,390,604	\$ (257,854)	\$ 2,123,750

### Total components of Net Cost of Operations that will not require or generate resources in the current period Net Cost of Operations

\$ 3,328,876	\$ (219,918)	\$ 3,108,958
\$ 90,771,321	\$ 11,844,206	\$ 102,615,527



The accompanying notes are an integral part of these financial statements. See notes 1 and 22.

# Supporting Consolidating/Combining Statements

Department of Defense  
Department of the Navy

## COMBINING STATEMENT OF FINANCING

As of September 30, 2002 and 2001

(\$ in thousands)

### Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Periods:

Increase in annual leave liability

Increase in environmental and disposal liability

Upward/Downward reestimates of credit subsidy expense

Increase in exchange revenue receivable from the public (-)

Other (+/-)

Total components of Net Cost of Operations that will require or generate resources in future periods

Components not Requiring or Generating Resources:

Depreciation and amortization

Revaluation of assets and liabilities (+/-)

Other (+/-)

Total components of Net Cost of Operations that will not require or generate resources

**Total components of Net Cost of Operations that will not require or generate resources in the current period**

**Net Cost of Operations**

Restated 2001	2001
\$ 0	\$ 0
0	0
0	0
0	0
1,186,409	1,186,409
<u>\$ 1,186,409</u>	<u>\$ 1,186,409</u>
\$ 714,583	\$ 714,583
0	0
32,135	32,135
<u>\$ 746,718</u>	<u>\$ 746,718</u>
\$ 1,933,127	\$ 1,933,127
<u>\$ 95,308,782</u>	<u>\$ 95,308,782</u>





Department of the Navy

# GENERAL FUND REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION



## MILITARY EQUIPMENT

### **Narrative Statement**

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards No. 6 to require the capitalization of military equipment (formerly National Defense Property, Plant and Equipment/ND PP&E) for fiscal years (FY) 2003 and beyond and encouraged early implementation. Based on this, the Department terminated the reporting of quantities and condition of military equipment and will begin the process of capitalizing these assets on its Balance Sheet in FY 2002.





# Required Supplementary Stewardship Information

## HERITAGE ASSETS FOR FISCAL YEAR ENDED SEPTEMBER 2002

(a)	(b) Measurement Quantity	(c) As of 10/30/01	(d) Additions	(e) Deletions	(f) As of 9/30/02
Museums	Each	20	1	-	21
Monuments & Memorials	Each	475	9	1	483
Cemeteries	Sites	55	-	-	55
Archeological Sites	Sites	23,120	163	-	23,283
Buildings and Structures	Each	9,123	9	33	9,099
Major Collections					
(See Supplemental Reporting)					

### Narrative Statement:

The Department of the Navy (DON) is required to report Heritage Assets in accordance with the following public laws:

- 10 USC 2721
- USC 483(b)
- Antiquities Act of 1906
- Historic Sites Act of 1935
- USC 470 National Historic Preservation Act of 1966
- National Environmental Policy Act of 1969
- American Indian Religious Freedom Act of 1978
- Archeological Resources Protection Act of 1979
- Native American Graves Protection & Repatriation Act of 1990
- Presidential Memorandum for Heads of Executive Departments and Agencies: Government to Government Relations with Native American Tribal Governments Act of 1994
- 36 CFR 79 — Curation of Federally Owned and Administered Archeological Collections

In general, the DON defines Heritage Assets as items that are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant architectural characteristics.

Explanation for adjustments, additions, and deletions. For DON historic buildings and structures, cemeteries, monuments, and memorials a new Heritage Assets data element series (DE 410) has been added to the internet Naval Facilities Asset Data Store (iNFADS). During FY 2003 DON staff will assess the availability of installation inventory and the technical ease of verifying and when necessary recording items in NFADS that are not already recorded. Therefore, balances will change as the DON staff works to reconcile installation records for historic buildings, structures, cemeteries, monuments and memorials with those in NFADS.





For Archaeological sites and artifacts, the DON is establishing a web-based data repository to collect archaeological site information by installation and will begin the data population effort in FY 2003. Archaeological site data provided for FY 2002 was derived through data collection effort within the heritage asset community.

The Department of the Navy Heritage Assets Management System (DONHAMS) has been implemented across the DON to improve and unify the collections management process that includes archival items, artwork, and historical artifacts are derived from DONHAMS. When implementing DONHAMS, data that was captured electronically was converted and placed into DONHAMS. The balances for the aforementioned items will change as DON museum and archive staffs continue to evaluate, accession and catalogue items for inclusion into DONHAMS.

The DON recognizes that there are items that it owns that may be classified as Heritage Assets as the items are evaluated, accessioned and catalogued.

Process used to establish assets as Heritage Assets. The processes used to establish items as having heritage significance varies between categories and type of assets being evaluated. Subject matter experts play a significant role in addition to other criteria such as listing on the National Register of Historic Places. In all cases, a myriad of federal statutes, service regulations, and other guidelines mandate heritage significance or provide guidance in its determination.

Multi-Use Heritage Assets. Per DoD FMR Volume 6B, Multi-Use Heritage Assets are reported both as Heritage Assets and on the Balance Sheet.

Information Pertaining to the Condition of DON Heritage Assets. The methodology used to report the condition of the heritage assets was a combination of visual assessment of the objects, historic value to the DON collection, and general display and storage standards for historic collections. The overall condition of the collection objects is good.

### **Museums**

Museums are buildings, places, or institutions devoted to the acquisition, conservation, study, exhibition, and educational interpretation of objects having scientific, historical, or artistic value.

### **Monuments and Memorials**

Monuments and Memorials have significant monetary and/or historical value to the DON.

The FY 2001 ending balance of 1,179 was adjusted downward by 704 resulting in an FY 2002 beginning balance of 475. This adjustment was the result of the DON beginning to utilize the NFADS to collect heritage asset information by installation.

### **Cemeteries**

Cemeteries are government owned burial grounds located on DON Installations.

In FY 2001, Cemeteries and Archeological Sites were reported as one category with an ending balance of 23,258. This balance consisted of 138 Cemeteries and 23,120 Archeological Sites. The FY 2001 ending balance of 138 Cemeteries was adjusted downward by 83 resulting in an FY 2002 beginning balance of 55. This adjustment was the result of the DON beginning to utilize NFADS to collect heritage asset information by installation.

# Required Supplementary Stewardship Information

## Archeological Sites

Archeological Sites are lands on which items of significance are located.

In FY 2001, Cemeteries and Archeological Sites were reported as one category with an ending balance of 23,258. This balance consisted of 138 Cemeteries and 23,120 Archeological Sites.

## Buildings and Structures

Buildings and Structures are listed on or determined eligible for listing on the National Register of Historic Places, including Multi-use Heritage Assets. Criteria for evaluating National Register eligibility of these sites may be referenced at 36 CFR 60.4.

Supplemental Reporting. In addition to the data presented in the table above, the following supplemental information was reported as of 9/30/02:

Category	Measurement Quantity	As of 10/01/01	Additions	Deletions	As of 9/30/02
Archeological Artifacts	Cubic Feet	13,619	80.5	-	13,699.5
Archival	Linear Feet	60,601	1,408	52	61,957
Artwork	Item	30,589	105	74	30,620
Historical Artifacts	Item	1,052,448	6,403	596	1,058,255

## Archeological Artifacts

The FY 2001 ending balance of 12,739 was adjusted upward by 880 resulting in an FY 2002 beginning balance of 13,619. This adjustment was the result of a shift in reporting responsibility from ASN(I&E) to the Navy and Marine Corps Historical Centers.

## Archival

The FY 2001 ending balance of 101,764 was adjusted downward by 41,163 resulting in an FY 2002 beginning balance of 60,601. This adjustment was the result of a shift in reporting responsibility from ASN(I&E) to the Navy and Marine Corps Historical Centers.

## Artwork

The FY 2001 ending balance of 38,616 was adjusted downward by 8,027 resulting in an FY 2002 beginning balance of 30,589. This adjustment was the result of a shift in reporting responsibility from ASN(I&E) to the Navy and Marine Corps Historical Centers.

## Historical Artifacts

The FY 2001 ending balance of 832,993 was adjusted upward by 219,455 resulting in an FY 2002 beginning balance of 1,052,448. This adjustment was the result of a shift in reporting responsibility from ASN(I&E) to the Navy and Marine Corps Historical Centers.



## STEWARDSHIP LAND

For Fiscal Year Ended September 30, 2002  
(Acres in Thousands)

(a) Land Use	(b) As of 10/1/01	(c) Additions	(d) Deletions	(e) As of 9/30/02
1. Mission	2,021	-	-	2,021
2. Parks & Historic Sites	-	-	-	-
Totals	2,021	-	-	2,021

### Narrative Statement

The DON followed the definition of Stewardship Land per DoD Guidance to include Public Domain, Land Set Aside, and Donated Land. The NFADS was used to derive acres for Stewardship Land. Within the definition of Stewardship Land, land can be further defined as improved, semi-improved and other categories of land.



# Required Supplementary Stewardship Information

## NON-FEDERAL PHYSICAL PROPERTY

The Department of the Navy does not fund this type of Activity.

## INVESTMENTS IN RESEARCH AND DEVELOPMENT

Yearly Investment in Research and Development

For Fiscal Years 1998 through 2002

(In Millions of Dollars)

(a) Categories	(b) FY98	(c) FY99	(d) FY00	(e) FY01	(f) FY02
1. Basic Research	\$341	\$344	\$345	\$383	\$378
2. Applied Research	496	510	538	597	647
3. Development					
Advanced Technology Development	518	532	607	738	779
Demonstration and Validation	2,407	2,234	2,216	2,418	2,415
Engineering and Manufacturing Development	2,125	2,019	2,225	2,086	2,836
Research, Development, Test, and Evaluation Management Support	695	709	750	782	838
Operational Systems Development	1,556	1,696	2,047	2,266	2,417
<b>Total</b>	<b>\$8,138</b>	<b>\$8,044</b>	<b>\$8,728</b>	<b>\$9,270</b>	<b>\$10,310</b>

## Narrative Statement

### Investments in Research and Development

Investment values included in this Report are based on Research and Development (R&D) outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with FASAB standards.

#### 1. Basic Research

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.

The following are two representative program examples for the above major category.





### **Partial Differential Equation-Based Interpolation of Lost Image Regions**

Scientists and researchers have developed computer techniques that can interpolate images of lost regions based on partial differential equations and computer algorithms. Utilizing the relationships between art, image processing, applied mathematics, and fluid dynamics, the computer techniques automatically fill-in the lost pieces of an image by using information from neighboring available regions. The technology may increase the quality of imagery and video surveillance by overcoming obstacles associated with bandwidth and noisy channels.

### **Controlled Biological and Biominetic Systems (Robotic Fly Project)**

Scientists from a joint military and university research project to develop a tiny winged robot modeled after a housefly successfully invented the mechanical wings necessary to give the robotic fly flight. Upon completion of the robotic insect, the faux fly will likely become the lightest weight autonomous robot in existence at a mere tenth of a gram. The robotic fly project, is part of an overall study by the Defense Advanced Research Project Agency and the Office of Naval Research.

## **2. Applied Research**

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, and research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include nonsystem specific development efforts.

The following are two representative program examples for the above major category.

### **Robotic Gliders**

Scientists and researchers are developing two gliders that move through the water instead of the air. The two ocean gliders, autonomous underwater vehicles powered by changes in their buoyancy or by different temperatures layers in the ocean, collect high resolution profiles of physical, chemical, and bio-optical properties of the ocean. The gliders could potentially provide data necessary for mine countermeasure and other tasks important to expeditionary warfare.

### **Supersonic Combustion Ramjet (SCRAMJET)**

The SCRAMJET is a cruise missile engine capable of speeds of up to MACH 6.5 at an altitude of 90,000 feet and a range of 600 nautical miles. Ultimately, missiles powered by SCRAMJET will launch from ships, submarines, and aircraft. The SCRAMJET powered missiles will reach their targets more quickly, thus reducing the possibility that enemies will intercept them on the way in.

# Required Supplementary Stewardship Information

## 3. Development

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages defined below:

1. Advance Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and productibility rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.
2. Demonstration and Validation evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Demonstration and Validation are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.
3. Engineering Manufacturing and Development concludes the program or project and prepares it for production. It consists primarily of pre-production efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and development testing.
4. RDT&E Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operations and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.
5. Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are two representative program examples for the above major category.

### High Strength, Low Alloy Steel (HSLA)

A new high strength, low alloy steel, HSLA-65, is undergoing certification tests to determine whether it could be used in the DON's next generation aircraft carrier. If the HSLA-65 passes the certification tests, the steel could provide equal or greater service life than traditional high-strength steel and weigh less. This will enable the carrier room for normal growth for new weapons, aircraft, sensors, communications, and maintenance equipment.

### MV-22 Osprey

Technicians and engineers are continuing their development in support of the "Return to Flight" of the MV-22. The MV-22 has undergone a broad range of modifications per recommendations from the DoD and NASA panels. Chief among the modifications was to the 5,000-psi high-pressure hydraulic system and rerouting of electrical lines. Software upgrades will be a part of the next Osprey production blocks.







Department of the Navy

# GENERAL FUND REQUIRED SUPPLEMENTARY INFORMATION



Department of Defense

Department of the Navy

## DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2002 and 2001

(\$ in thousands)

### BUDGETARY FINANCING ACCOUNTS

#### BUDGETARY RESOURCES

	Other	Research Development, Test and Evaluation	Operation and Maintenance	Procurement
Budget Authority				
Appropriations Received	\$ 362,370	\$ 11,507,506	\$ 31,839,478	\$ 25,308,799
Net transfers (+/-)	(255,192)	47,996	1,736,519	185,767
Unobligated Balance:				
Beginning of period	31,023	851,026	1,074,476	11,120,006
Net transfers, actual (+/-)	0	650	2,652	680
Spending Authority from Offsetting Collections:				
Collected	0	151,829	4,642,835	1,014,086
Receivable from Federal sources	0	5,056	(136,853)	(96,644)
Advances received	0	0	1,900	0
Without advance from Federal sources	0	71,157	86,293	(8,375)
Subtotal	\$ 0	\$ 228,042	\$ 4,594,175	\$ 909,067
Recoveries of prior year obligations	\$ 14,006	\$ 111,884	\$ 1,395,298	\$ 339,812
Permanently not available	(4,033)	(246,613)	(377,902)	(515,885)
Total Budgetary Resources	\$ 148,174	\$ 12,500,491	\$ 40,264,696	\$ 37,348,246

### STATUS OF BUDGETARY RESOURCES

Obligations Incurred				
Direct	\$ 110,527	\$ 11,114,499	\$ 33,910,978	\$ 21,427,162
Reimbursable	109	269,855	5,411,652	6,867,204
Subtotal	\$ 110,636	\$ 11,384,354	\$ 39,322,630	\$ 28,294,366
Unobligated balance				
Apportioned	\$ 37,538	\$ 1,056,543	\$ 122,039	\$ 8,783,710
Unobligated Balances Not Available	0	59,594	820,027	270,170
Total, Status of Budgetary Resources	\$ 148,174	\$ 12,500,491	\$ 40,264,696	\$ 37,348,246

### RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:

Obligated Balance, Net-beginning of period:	\$ 116,910	\$ 4,372,212	\$ 8,806,746	\$ 35,381,535
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, net-end of period:				
Accounts Receivable	0	(30,134)	(1,476,191)	\$ (220,588)
Unfilled customer order from Federal sources	0	(177,343)	(1,286,287)	(18,110)
Undelivered Orders	80,873	5,179,514	11,281,055	36,408,075
Accounts Payable	18,221	85,653	1,485,143	1,327,183
OUTLAYS:				
Disbursements	\$ 114,446	\$ 10,510,778	\$ 36,780,918	\$ 25,944,548
Collections	0	(151,829)	(4,644,736)	(1,014,086)
Subtotal	\$ 114,446	\$ 10,358,949	\$ 32,136,182	\$ 24,930,462
Less: Offsetting receipts	(29,120)	0	(184,225)	0
Net Outlays	\$ 85,326	\$ 10,358,949	\$ 31,951,957	\$ 24,930,462



# General Fund Required Supplementary Information

Department of Defense  
Department of the Navy

## DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES

For the years ended September 30, 2002 and 2001

(\$ in thousands)

<b>BUDGETARY FINANCING ACCOUNTS</b>	<b>Military Personnel</b>	<b>Military Construction/Family Housing</b>	<b>2002 Combined</b>	<b>2001 Combined</b>
<b>BUDGETARY RESOURCES</b>				
Budget Authority				
Appropriations Received	\$ 29,011,847	\$ 1,531,202	\$ 99,561,202	\$ 94,848,409
Net transfers (+/-)	955,207	5,950	2,676,247	387,346
Unobligated Balance:				
Beginning of period	153,679	605,618	13,835,828	13,624,084
Net transfers, actual (+/-)	66,829	(19,750)	51,061	365,723
Spending Authority from Offsetting Collections:				
Collected	237,247	443,965	6,489,962	4,878,546
Receivable from Federal sources	54,702	(89,714)	(263,453)	915,971
Advances received	0	(614)	1,286	4,165
Without advance from Federal sources	(420)	37,863	186,518	(201,723)
Subtotal	<u>\$ 291,529</u>	<u>\$ 391,500</u>	<u>\$ 6,414,313</u>	<u>\$ 5,596,959</u>
Recoveries of prior year obligations	311,423	114,411	2,286,834	\$ 3,277,598
Permanently not available	(188,260)	(67,263)	(1,399,956)	(1,773,918)
Total Budgetary Resources	<u>\$ 30,602,254</u>	<u>\$ 2,561,668</u>	<u>\$ 123,425,529</u>	<u>\$ 116,326,201</u>
<b>STATUS OF BUDGETARY RESOURCES</b>				
Obligations Incurred				
Direct	\$ 30,325,125	\$ 2,419,460	\$ 99,307,751	\$ 95,682,240
Reimbursable	149,818	(489,843)	12,208,795	6,807,699
Subtotal	<u>\$ 30,474,943</u>	<u>\$ 1,929,617</u>	<u>\$ 111,516,546</u>	<u>\$ 102,489,939</u>
Unobligated balance				
Apportioned	\$ 21,737	\$ 569,000	\$ 10,590,567	\$ 12,391,407
Unobligated Balances Not Available	105,574	63,051	1,318,416	1,444,855
Total, Status of Budgetary Resources	<u>\$ 30,602,254</u>	<u>\$ 2,561,668</u>	<u>\$ 123,425,529</u>	<u>\$ 116,326,201</u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:</b>				
Obligated Balance, Net-beginning of period:	\$ 1,989,955	\$ 1,666,491	\$ 52,333,849	\$ 48,385,598
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, net-end of period:				
Accounts Receivable	(270,029)	(112,436)	(2,109,378)	(2,372,828)
Unfilled customer order from Federal sources	(728)	(544,725)	(2,027,193)	(1,840,675)
Undelivered Orders	496,528	2,187,710	55,633,755	50,942,279
Accounts Payable	1,512,623	174,177	4,603,000	5,604,765
<b>OUTLAYS:</b>				
Disbursements	\$ 30,360,798	\$ 1,828,822	\$ 105,540,310	\$ 94,550,149
Collections	(237,247)	(443,351)	(6,491,249)	(4,882,711)
Subtotal	<u>\$ 30,123,551</u>	<u>\$ 1,385,471</u>	<u>\$ 99,049,061</u>	<u>\$ 89,667,438</u>
Less: Offsetting receipts	0	0	(213,345)	0
<b>Net Outlays</b>	<u>\$ 30,123,551</u>	<u>\$ 1,385,471</u>	<u>\$ 98,835,716</u>	<u>\$ 89,667,438</u>



DEPARTMENT OF THE NAVY  
GENERAL PROPERTY, PLANT, AND EQUIPMENT  
Real Property Deferred Annual Sustainment and Restoration Tables  
As of September 30, 2002  
(\$ in Millions)

Annual Sustainment FY 2002			
	Required	Actual	Difference
Navy			
Marine Corps			
<b>Building, Structures, and Utilities</b>	1,522	1,482	40

Annual Deferred Sustainment Trend			
	FY 2000	FY 2001	FY 2002
Navy			
Marine Corps			
<b>Building, Structures, and Utilities</b>	-	501	40

Restoration and Modernization Requirements			
	End FY 2001	End FY 2002	Change
Navy			
Marine Corps			
<b>Building, Structures, and Utilities</b>	-	-	-

**Narrative Statement:**

In FY 2002, Department of the Navy, General Fund facilities transitioned to the Office of the Secretary of Defense's Facility Sustainment Model for calculating deferred sustainment and restoration. FY 2001 facility investments were programmed, budgeted, and executed before application of the Facility Sustainment Model. Therefore, the fluctuations between FY 2001 data and FY 2002 data are attributable to the revised reporting methodology.

The quality of data used in the Facility Sustainment Model continued to undergo quality checks in FY 2002, resulting in a more accurate accounting of deferred sustainment requirements.

Presently, a separate breakout between Navy and Marine Corps sustainment amounts cannot be provided. Due to this limitation, information in the Real Property Deferred Annual Sustainment and Restoration Tables are presented in total for the Department of the Navy (DON).

The Facility Sustainment Model calculates facility sustainment investment based on DON property inventory, facility type, key units of measure, geographic location and industry standards. These variables are constantly being examined to reduce errors and eliminate disconnects for unique DON facility requirements.

The DON General Fund has no material amounts of deferred sustainment for the General Property, Plant, and Equipment categories of Personal Property, Heritage Assets, or Stewardship Land.



# General Fund Required Supplementary Information

## MILITARY EQUIPMENT

Deferred Maintenance Amounts  
As of September 30, 2002  
(\$ in Thousands)

Major Type	Amount
1. Aircraft	\$ 148,470
2. Ships	243,615
3. Missiles	36,130
4. Combat Vehicles	41,950
5. Other Weapons Systems	<u>224,022</u>
6. <b>Total</b>	<b>\$694,187</b>

### Narrative Statement:

#### Aircraft Deferred Maintenance

There are four sub-categories that comprise aircraft deferred maintenance: airframe rework and maintenance (active and reserve), engine rework and maintenance (active and reserve), component repair and software maintenance. The airframe rework deferred maintenance calculation reflects executable unfunded requirements, which represent aircraft that failed Aircraft Service Period Adjustment (ASPA) or reached fixed Period End Date (PED) at year-end. The engine rework deferred maintenance calculation reflects year-end actual requirements minus actual funded units. Generally, component repair deferred maintenance cost represents the difference between requirement and funding. Aircraft deferred maintenance reflects only executable deferred maintenance. Unexecutable deferred maintenance is not reported in the Exhibit OP-30, nor is it collected.

#### Ship Deferred Maintenance

Deferred Ship Maintenance data was provided by Fleet Type Commanders. Data was collected from the Current Ships' Maintenance Plan (CSMP) database, which captures maintenance actions at all levels (organizational, intermediate, depot) for active and reserve ships. Only depot level deferred maintenance has been provided in this report. This includes maintenance actions that were deferred from actual depot maintenance work packages as well as maintenance that was deferred prior to inclusion in a work package due to either fiscal, operational, or capacity constraints. Although there is a significant amount of deferred maintenance actions, there are no ships that fall into the category of "unacceptable operating condition". Any ship that would be at risk of being in unacceptable operating condition would receive priority for maintenance funding to maintain acceptable operating condition.

Ship deferred maintenance decreased from \$903,758 thousand in FY 2001 to \$243,615 thousand in FY 2002. This is due to the DON's funding a higher percentage of ship maintenance requirements in FY 2002.

#### Missile Maintenance

Four categories are used to determine missile maintenance: missiles, tactical missiles, software maintenance, and other. Deferred maintenance is defined as the difference between the total weapon maintenance requirement as determined by requirements modeling processes and the weapon maintenance that is funded in accordance with the annual budget controls for the Missile Maintenance program. The maintenance requirements model projects the quantity of missiles and missile components per weapon system that are required to be maintained (reworked) annually.



**Combat Vehicles**

The combat vehicles category is for vehicle overhaul for the active and reserve Marine Corps. Deferred Maintenance for Combat Vehicles increased from \$766 thousand in FY 2001 to \$41,950 thousand in FY 2002. This is primarily the result of improved reporting in light of the new methodology.

**Other Weapons Systems**

The "Other Weapons Systems" category is comprised of ordnance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, air traffic control equipment, target systems, expeditionary airfield equipment, special weapons, target maintenance, and repair of repairables. Three categories define ordnance maintenance: ordnance maintenance, software maintenance and other. Although the various programs vary in the methodology in defining requirements, all programs define deferred maintenance as the difference between requirements and funding.

**Software Maintenance**

Software maintenance requirements and deferred maintenance for aircraft, missiles and other equipment are determined using the same methodology and, therefore will not be addressed separately for each Military Equipment Deferred Maintenance reporting categories. Software maintenance includes the operational and system test software that runs in the airborne avionics systems (e.g., mission computer, display computer, radar) and the software that runs the ground based support labs used to perform software sustainment (e.g., compilers, editors, simulation, configuration management). The deferred maintenance reported for the execution year are those requirements below the funding threshold and up to, but not exceeding, the capacity of the Software Support Activity (SSA) in that particular fiscal year. There may be deferred requirements that exceed the capacity of the SSA, but these are not reported in the Exhibit OP-30 for the execution year, but rather identified as an out year requirement.

## General Fund Required Supplementary Information

Schedule, Part A DoD Intragovernmental Asset Balances (\$ Amounts in Thousands)	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Executive Office of the President	11		\$ 12,979			
Department of Agriculture	12		290			
Department of Commerce	13		56			
Department of the Interior	14		180			
Department of Justice	15		2,943			
Navy General Fund	17					
United States Postal Service	18		10			
Department of State	19		20,749			
Department of the Treasury	20	\$ 68,249,955	1,403		\$ 9,625	
Army General Fund	21		13,283			
Library of Congress	3		27			
Department of Veterans Affairs	36		2			
General Service Administration	47		23			
Air Force General Fund	57		60,070			\$ 555
Federal Emergency Management Agency	58		28			
Department of Transportation	69		4,252			
Department of Health and Human Services	75		67			
National Aeronautics and Space Administration	80		4,674			
Armed Forces Retirement Home	84		6			
Department of Housing and Urban Development	86		12			
Department of Energy	89		84			
US Army Corps of Engineers	96		1,177			
Other Defense Organizations General Funds	97		317,355			43
Other Defense Organizations Working Capital Funds	97-4930		43,718			
Army Working Capital Fund	97-4930.011		5,158			576
Navy Working Capital Fund	97-4930.002		253,581			65,900
Air Force Working Capital Fund	97-4930.003		341			8
<b>TOTALS</b>		<b>\$ 68,249,955</b>	<b>\$ 742,468</b>	<b>\$ 0</b>	<b>\$ 9,625</b>	<b>\$ 67,082</b>



Schedule, Part B DoD Intragovernmental Entity Liabilities (\$ Amounts In Thousands)	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Department of Justice	15			
Department of Labor	16			\$ 616,874
Department of the Treasury	20			2,839,957
Army General Fund	21	\$ 53,822		
Office of Personnel Management	24			32,672
Air Force General Fund	57	25,752		
US Army Corps of Engineers	96	2,073		
Other Defense Organizations General Funds	97	39,731	\$ 128	
Other Defense Organizations Working Capital Funds	97-4930	260,323		
Army Working Capital Fund	97-4930.001	4,802		
Navy Working Capital Fund	97-4930.002	348,895		
Air Force Working Capital Fund	97-4930.003	12,878		
<b>TOTALS</b>		<b>\$ 748,276</b>	<b>\$ 128</b>	<b>\$ 3,489,503</b>





## General Fund Required Supplementary Information

Schedule, Part C DoD Intragovernmental Revenue and Related Costs (\$ Amounts in Thousands)	Treasury Index	Earned Revenue
Executive Office of the President	11	\$ 6,132
Department of Agriculture	12	187
Department of Commerce	13	172
Department of the Interior	14	499
Department of Justice	15	2,079
Department of Labor	16	22
United States Postal Service	18	21
Department of State	19	20,982
Department of the Treasury	20	1,777
Army General Fund	21	23,143
Library of Congress	3	27
Department of Veterans Affairs	36	8
General Service Administration	47	287
National Science Foundation	49	1
Air Force General Fund	57	73,145
Federal Emergency Management Agency	58	28
Department of Transportation	69	5,268
Department of Health and Human Services	75	67
National Aeronautics and Space Administration	80	5,197
Armed Forces Retirement Home	84	6
Department of Housing and Urban Development	86	12
Department of Energy	89	31
US Army Corps of Engineers	96	999
Other Defense Organizations General Funds	97	510,782
Other Defense Organizations Working Capital Funds	97-4930	53,331
Army Working Capital Fund	97-4930.001	5,187
Navy Working Capital Fund	97-4930.002	499,591
Air Force Working Capital Fund	97-4930.003	952
<b>TOTALS</b>		<b>\$ 1,209,933</b>



Schedule, Part E DoD Intragovernmental Non-Exchange Revenues (S Amounts in Thousands)	Treasury Index	Transfer -In	Transfer -Out
Air Force General Fund	57	\$ 4,733	
Navy Working Capital Fund	97-4930.002	4,291	\$ 3,153
<b>TOTALS</b>		<b>\$ 9,024</b>	<b>\$ 3,153</b>



Department of the Navy

## OTHER ACCOMPANYING INFORMATION



## APPROPRIATIONS, FUNDS, AND ACCOUNTS INCLUDED IN THE PRINCIPAL STATEMENTS

### Entity Accounts:

#### General Funds

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing, Navy and Marine Corps
17X0810	Environmental Restoration, Navy
17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps
17 1205	Military Construction, Navy
17 1235	Military Construction, Naval Reserve
17X1236	Payments to Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17 1319	Research, Development, Test, and Evaluation, Navy
17 1405	Reserve Personnel, Navy
17 1453	Military Personnel, Navy
17 1506	Aircraft Procurement, Navy
17 1507	Weapons Procurement, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps
17 1611	Shipbuilding and Conversion, Navy
17 1804	Operation and Maintenance, Navy
17 1806	Operation and Maintenance, Navy Reserve
17 1810	Other Procurement, Navy

#### Revolving funds

17 4557	National Defense Sealift Fund, Navy
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#### Trust funds

17X8423	Midshipmen Store, United States Naval Academy
17X8716	Department of the Navy General Gift Fund
17X8723	Ship Stores Profits, Navy
17X8733	United States Naval Academy General Gift Fund

#### Special funds

17X5095	Wildlife Conservation, etc., Military Reservations, Navy
17X5185	Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account



# General Fund Required Supplementary Information

## Non Entity Accounts:

### Special funds (Receipt Accounts)

- 17 3041 Recoveries Under the Foreign Military Sales Program
- 17 3210 General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified

### Deposit funds

- 17X6001 Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
- 17X6002 Funds of Deceased, Mentally Incompetent or Missing Personnel, Navy
- 17X6025 Pay of the Navy, Deposit Fund
- 17X6026 Pay of the Marine Corps
- 17X6050 Employee Payroll Allotment Account (U.S. Bonds)
- 17X6075 Withheld Allotment of Compensation for Payment of Employee Organization Dues, Navy
- 17X6083 Withheld Allotment of Compensation for Charitable Contributions, Navy
- 17X6134 Amounts Withheld for Civilian Pay Allotments, Navy
- 17X6275 Withheld State and Local Income Taxes
- 17X6434 Servicemen's Group Life Insurance Fund, Suspense, Navy
- 17X6705 Civilian Employees Allotment Account, Navy
- 17X6706 Commercial Communication Service, Navy
- 17 6763 Gains and Deficiencies on Exchange Transactions, Navy (fiscal year)
- 17X6850 Housing Rentals, Navy 17X6875 Suspense, Navy
- 17X6999 Accounts Payable, Check Issue Underdrafts, Navy





Department of the Navy

# WORKING CAPITAL FUND PRINCIPAL STATEMENTS



## LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations for the entity, pursuant to the requirements of the Title 31, United States Code, Section 3515(b).

While the statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

To the extent possible, the financial statements have been prepared in accordance with federal accounting standards. At times, the Department is unable to implement all elements of the standards due to financial management systems limitations. The Department continues to implement system improvements to address these limitations. There are other instances when the Department's application of the accounting standards is different from the auditor's application of the standards. In those situations, the Department has reviewed the intent of the standard and applied it in a manner that management believes fulfills that intent.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities cannot be liquidated without legislation that provides resources to do so.





# Principal Statements

## PRINCIPAL STATEMENTS

The FY 2002 Navy Working Capital Fund Principal Financial Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B. The statements and related notes summarize financial information for individual funds and accounts within the Navy Working Capital Fund for the fiscal year ending September 30, 2002, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2001. In accordance with SSFAS No. 21, the FY 2001 presentation has been restated to show the correction of a material error discovered in FY 2002 and is identified in the Financial Statement presentation in the column titled "Restated 2001".

The following statements are included in the Navy Working Capital Fund Principal Statements:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement Budgetary Resources
- Combined Statement of Financing

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

The accompanying notes should be considered an integral part of the Principal Statements.



Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATED BALANCE SHEET**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	2002	Restated 2001	2001
<b>ASSETS (Note 2)</b>			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	\$ 1,709,680	\$ 1,204,403	\$ 1,204,403
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	525,240	894,349	894,349
Other Assets (Note 6)	266	29,500	29,500
Total Intragovernmental Assets	<u>2,235,186</u>	<u>2,128,252</u>	<u>2,128,252</u>
Cash and Other Monetary Assets (Note 7)	0	0	0
Accounts Receivable (Note 5)	80,901	109,737	109,737
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	17,655,864	17,345,710	17,885,914
General Property, Plant and Equipment (Note 10)	4,190,837	4,151,238	4,151,238
Other Assets (Note 6)	1,140,654	1,373,420	1,373,420
<b>TOTAL ASSETS</b>	<u>\$ 25,303,442</u>	<u>\$ 25,108,357</u>	<u>\$ 25,648,561</u>
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 434,772	\$ 462,946	\$ 462,946
Debt (Note 13)	750,725	888,306	888,306
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	177,808	119,102	119,102
Total Intragovernmental Liabilities	<u>1,363,305</u>	<u>1,470,354</u>	<u>1,470,354</u>
Accounts Payable (Note 12)	1,799,671	1,041,391	1,041,391
Military Retirement Benefits and Other Employment- Related Actuarial Liabilities (Note 17)	1,325,926	1,372,651	1,372,651
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	2,807,834	4,045,593	4,045,593
<b>TOTAL LIABILITIES</b>	<u>\$ 7,296,736</u>	<u>\$ 7,929,989</u>	<u>\$ 7,929,989</u>
<b>NET POSITION</b>			
Unexpended Appropriations (Note 18)	0	0	0
Cumulative Results of Operations	18,006,706	17,178,368	17,718,572
<b>TOTAL NET POSITION</b>	<u>\$ 18,006,706</u>	<u>\$ 17,178,368</u>	<u>\$ 17,718,572</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 25,303,442</u>	<u>\$ 25,108,357</u>	<u>\$ 25,648,561</u>

The accompanying notes are an integral part of these financial statements.



# Principal Statements

Department of Defense

Navy Working Capital Fund

## CONSOLIDATED STATEMENT OF NET COST

For the years ended September 30, 2002 and 2001

(\$ in thousands)

	2002	Restated 2001	2001
<b>Program Costs</b>			
Intragovernmental Gross Costs	\$ 5,382,324	\$ 6,189,093	\$ 6,189,093
(Less: Intragovernmental Earned Revenue)	(20,916,260)	(18,328,658)	(18,328,658)
Intragovernmental Net Costs	<u>(15,533,936)</u>	<u>(12,139,565)</u>	<u>(12,139,565)</u>
 Gross Costs With the Public	 18,837,402	 16,928,798	 14,436,194
(Less: Earned Revenue From the Public)	(862,692)	(648,383)	(648,383)
Net Costs With the Public	<u>17,974,710</u>	<u>16,280,415</u>	<u>13,787,811</u>
 Total Net Cost	 2,440,774	 4,140,850	 1,648,246
 <b>Costs Not Assigned to Programs</b>	 0	 0	 0
<b>(Less: Earned Revenue Not Attributable to Programs)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net Costs of Operations</b>	<u><u>\$ 2,440,774</u></u>	<u><u>\$ 4,140,850</u></u>	<u><u>\$ 1,648,246</u></u>

The accompanying notes are an integral part of these financial statements. See notes 1 and 19.



Department of Defense  
Navy Working Capital Fund

**CONSOLIDATED STATEMENT OF CHANGES IN THE NET POSITION**

For the years ended September 30, 2002 and 2001

(\$ in thousands)

<b>CUMULATIVE RESULTS OF OPERATION</b>	<b>2002</b>	<b>Restated 2001</b>	<b>2001</b>
<b>Beginning Balances</b>	\$ 17,718,572	\$ 19,090,738	\$ 19,090,738
Prior period adjustments (+/-)	1,952,397	790,769	(1,161,631)
<b>Beginning Balances, as adjusted</b>	<u>19,670,969</u>	<u>19,881,507</u>	<u>17,929,107</u>
<b>Budgetary Financing Sources:</b>			
Appropriations Received	0	0	0
Appropriations transferred in/out (+/-)	0	0	0
Other adjustments (recissions, etc) (+/-)	0	0	0
Appropriations used	0	145,530	145,530
Nonexchange revenue	0	11,352	11,352
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	312,060	771,249	771,249
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	(1,138)	36,187	36,187
Imputed financing from costs absorbed by others	465,589	473,393	473,393
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	<u>776,511</u>	<u>1,437,711</u>	<u>1,437,711</u>
<b>Net Cost of Operations (+/-)</b>	2,440,774	4,140,850	1,648,246
<b>Ending Balances</b>	<u>\$ 18,006,706</u>	<u>\$ 17,178,368</u>	<u>\$ 17,718,572</u>



The accompanying notes are an integral part of these financial statements. See notes 1 and 20.

# Principal Statements

Department of Defense  
Navy Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the years ended September 30, 2002 and 2001  
(\$ in thousands)

	2002 Budgetary Financing Accounts	Restated 2001 Budgetary Financing Accounts	2001 Budgetary Financing Accounts
<b>BUDGETARY RESOURCES</b>			
Budget Authority:			
Appropriations Received	\$ 0	\$ 145,530	\$ 145,530
Borrowing Authority	0	0	0
Contract Authority	818,950	612,962	612,962
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated Balance:			
Beginning of period	3,106,657	2,089,156	2,089,156
Net transfers, actual (+/-)	0	43,700	43,700
Anticipated Transfers Balances	0	0	0
Spending Authority from Offsetting Collections:			
Earned			
Collected	24,242,264	21,216,090	21,216,090
Receivable from Federal sources	(478,538)	177,613	177,613
Change in unfilled customer orders			
Advances received	58,673	(576,035)	(576,035)
Without advance from Federal sources	773,407	790,653	790,653
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	24,595,806	21,608,321	21,608,321
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(417,232)	(80,135)	(80,135)
<b>Total Budgetary Resources</b>	<u>\$ 28,104,181</u>	<u>\$ 24,419,534</u>	<u>\$ 24,419,534</u>
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred:			
Direct	\$ 0	\$ 0	\$ 0
Reimbursable	23,986,959	21,312,877	21,312,877
Subtotal	23,986,959	21,312,877	21,312,877
Unobligated balance:			
Apportioned	4,117,221	3,044,096	3,044,096
Exempt from apportionment	0	62,562	62,562
Other available	1	(1)	(1)
Unobligated Balances Not Available	0	0	0
<b>Total, Status of Budgetary Resources</b>	<u>\$ 28,104,181</u>	<u>\$ 24,419,534</u>	<u>\$ 24,419,534</u>

The accompanying notes are an integral part of these financial statements. See notes 1 and 21.



Department of Defense  
Navy Working Capital Fund  
**COMBINED STATEMENT OF BUDGETARY RESOURCES**  
For the years ended September 30, 2002 and 2001  
(\$ in thousands)

	2002 Budgetary Financing Accounts	Restated 2001 Budgetary Financing Accounts	2001 Budgetary Financing Accounts
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>			
Obligated Balance, Net-beginning of period	\$ 2,421,105	\$ 3,630,862	\$ 3,630,862
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, net-end of period:			
Accounts Receivable	(773,326)	(1,251,862)	(1,251,862)
Unfilled customer order from Federal sources	(6,791,954)	(6,018,549)	(6,018,549)
Undelivered Orders	7,327,957	4,611,122	4,611,122
Accounts Payable	3,223,082	5,080,394	5,080,394
Outlays:			
Disbursements	23,127,436	21,554,367	21,554,367
Collections	(24,300,937)	(20,640,054)	(20,640,054)
Subtotal	(1,173,501)	914,313	914,313
Less: Offsetting receipts	0	0	0
<b>Net Outlays</b>	<b>\$ (1,173,501)</b>	<b>\$ 914,313</b>	<b>\$ 914,313</b>



The accompanying notes are an integral part of these financial statements. See notes 1 and 21.

# Principal Statements

Department of Defense

Navy Working Capital Fund

## COMBINED STATEMENT OF FINANCING

For the years ended September 30, 2002 and 2001

(\$ in thousands)

### Resources Used to Finance Activities:

	2002	Restated 2001	2001
Budgetary Resources Obligated			
Obligations Incurred	\$ 23,986,959	\$ 21,312,876	\$ 21,312,876
Less: Spending Authority from offsetting collections and recoveries (-)	(24,595,804)	(21,608,321)	(21,608,321)
Obligations net of offsetting collections and recoveries	(608,845)	(295,445)	(295,445)
Less: Offsetting receipts (-)	0	0	0
Net obligations	(608,845)	(295,445)	(295,445)
Other Resources			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	(7,512)	(7,512)
Imputed financing from costs absorbed by others	465,589	473,394	473,394
Other (+/-)	0	0	0
Net other resources used to finance activities	465,589	465,882	465,882
<b>Total resources used to finance activities</b>	<b>\$ (143,256)</b>	<b>\$ 170,437</b>	<b>\$ 170,437</b>

### Resources Used to Finance Items not Part of the Net Cost of Operations:

Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided

Undelivered orders (-)	\$ (3,023,627)	\$ 2,802,411	\$ 2,802,411
Unfilled Customer Orders	832,080	214,618	214,618
Resources that fund expenses recognized in prior periods	(46,725)	(305)	(305)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0
Resources that finance the acquisition of assets	5,167,247	(520,950)	(3,013,554)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations			
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0	0
Other (+/-)	0	0	0

### Total resources used to finance items not part of the Net Cost of Operations

	2,928,975	2,495,774	3,170
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ 2,785,719</b>	<b>\$ 2,666,211</b>	<b>\$ 173,607</b>



Department of Defense  
Navy Working Capital Fund

## COMBINED STATEMENT OF FINANCING

For the years ended September 30, 2002 and 2001

(\$ in thousands)

### Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:

Components Requiring or Generating Resources in Future Periods:

	2002	Restated 2001	2001
Increase in annual leave liability	\$ 0	\$ 0	\$ 0
Increase in environmental and disposal liability	0	0	0
Upward/Downward reestimates of credit subsidy expense	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0
Other (+/-)	0	149,042	149,042
Total components of Net Cost of Operations that will require or generate resources in future periods	0	149,042	149,042

Components not Requiring or Generating Resources:

Depreciation and amortization	210,490	210,671	210,671
Revaluation of assets and liabilities (+/-)	(555,394)	1,114,926	1,114,926
Other (+/-)	(41)	0	0

Total components of Net Cost of Operations that will not require or generate resources	\$ (344,945)	\$ 1,325,597	\$ 1,325,597
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### Total components of Net Cost of Operations that will not require or generate resources in the current period

Net Cost of Operations	\$ (344,945)	\$ 1,474,639	\$ 1,474,639
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	\$ 2,440,774	\$ 4,140,850	\$ 1,648,246
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The accompanying notes are an integral part of these financial statements. See notes 1 and 22.



Department of the Navy

# WORKING CAPITAL FUND NOTES TO THE PRINCIPAL STATEMENTS





## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

### A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Navy Working Capital Fund (NWCF), as required by the Chief Financial Officers (CFO) Act of 1990, expanded by the Government Management Reform Act (GMRA) of 1994, and other appropriate legislation. The financial statements have been prepared from the books and records of the NWCF in accordance with the Department of Defense Financial Management Regulation (DoD FMR), Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and to the extent possible Federal Generally Accepted Accounting Principals (GAAP). However, the NWCF financial statements were affected by fiscal year (FY) 2000 and 2001 adjustments, made to facilitate the Department of Defense (DoD) and federal-wide financial statement consolidation process, that were not reversed at fiscal year-end as required by the DoD FMR. The NWCF was required to present financial statement balances that agreed with related balances reported by other DoD and other civilian agency balances. The adjusted balances reported by the NWCF then enabled DoD and the Department of Treasury to eliminate, at the DoD and federal government consolidated statement levels, the effects of all intra-DoD and intra-governmental transactions. The effect of these adjustments on the NWCF financial statements for FYs 2000 and 2001 was significant and pervasive. See Note 1.G., Accounting for Intragovernmental Activities, for additional disclosures on eliminating intra-governmental transactions.

The accompanying financial statements account for all resources for which the NWCF is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The NWCF financial statements are in addition to the financial reports also prepared by the NWCF pursuant to OMB directives that are used to monitor and control the NWCF use of budgetary resources.

The NWCF is unable to fully implement all elements of Federal GAAP and OMB Bulletin No. 01-09 due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for the NWCF's major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the NWCF cannot currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The NWCF continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems. A more detailed explanation of these financial statement elements is provided in the applicable footnote.

The amounts presented in the financial statements and notes are rounded to the nearest thousand of dollars.

### B. Mission of the Reporting Entity

The overall mission of the Department of Navy (DON) is to organize, train, and equip forces to deter aggression and, if necessary, defeat aggressors of the United States and its allies. The NWCF provides goods, services, and infrastructure to DON and other DoD customers to help ensure our military forces are mobile, ready, and have the most advanced technology.

The NWCF has prepared, for the 12th year, financial statements pursuant to CFO Act of 1990, as amended. The Act requires that financial statements be prepared and audited for each revolving fund and account that performed substantial commercial functions, such as those performed by the NWCF.

The NWCF financial statements include all activities previously financed through the Navy Industrial Fund and DON Stock Fund. DoD converted these activities to the Defense Business Operations Fund (DBOF) in

# Notes to the Principal Statements

October 1991. In December 1996, Under Secretary of Defense (Comptroller) (USD(C)) replaced the DBOF with four working capital funds, one of which is the NWCF. This action did not change the previous organizational reporting structure.

## **C. Appropriations and Funds**

The DON's appropriations and funds are divided into the general, working capital (revolving funds), trust, special, and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the DON's missions.

Working capital funds (WCF) (revolving funds) receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The Defense Working Capital Fund (DWCF) operates with financial principles that provide improved cost visibility and accountability to enhance business management and improve the decision making process. The activities provide goods and services on a reimbursable basis. Receipts derived from operations generally are available in their entirety for use without further congressional action.

## **D. Basis of Accounting**

The NWCF generally records transactions on an accrual accounting basis as is required by Federal GAAP. However, some of the NWCF's financial and nonfinancial feeder systems and processes are not designed to collect and record financial information on the full accrual accounting basis. The NWCF has undertaken efforts to determine the actions required to bring all of its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP.

In addition, the NWCF identifies programs based upon the major appropriation groups provided by Congress. The NWCF is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

## **E. Revenues and Other Financing Sources**

Revenue is recognized according to the percentage of completion method for depot maintenance and research and development WCF activities. Revenue is recognized when an inventory item is sold for supply management activities and at the time service is rendered for base support activities. Revenue for the transportation activity group is recognized on either a reimbursable or per diem basis.

## **F. Recognition of Expenses**

For financial reporting purposes, the DoD policy requires the recognition of operating expenses in the period incurred. However, because the NWCF's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and contracts. Expenditures for capital and other long-term assets are not recognized as expenses in the NWCF's operations until depreciated in the case of Property, Plant, and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in the net position.

Operating expenses were adjusted as a result of the elimination of balances between DoD Components. See Note 19.I Intragovernmental Expenses and Revenue, for disclosure of adjustment amounts.





## G. Accounting for Intra-governmental Activities

The NWCF, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the NWCF as though the agency was a stand-alone entity.

The DON's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. The NWCF's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DON facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

The NWCF's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement Systems (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The NWCF funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The NWCF recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

The Department reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. The Department recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization General Fund column of the DoD Agency-wide consolidating/combining statements.

To prepare reliable financial statements, transactions occurring between components or activities within the NWCF must be eliminated. However, the NWCF cannot accurately identify all intragovernmental transactions by customer. The Defense Finance and Accounting Service (DFAS) is responsible for eliminating transactions between components or activities of the NWCF. For FYs 1999, 2000, and 2001, seller entities within the Department provided summary seller-side balances for revenue, Accounts Receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and Accounts Payable.

The Department of the Treasury, Financial Management Service (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the FMS issued the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide." The Department was not able to fully implement the policies and procedures in this guide related to reconciling intragovernmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The NWCF, however, was able to implement the policies and procedures contained in the "Intragovernmental Fiduciary Transactions Accounting Guide," as updated by the "Federal Intragovernmental Transactions Accounting Policies and Procedures Guide," for reconciling intragovernmental transactions pertaining to investments in federal securities, borrowings from the United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DOL), and benefit program transactions with the OPM.

# Notes to the Principal Statements

## **H. Transactions with Foreign Governments and International Organizations**

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of this Act, DoD has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

## **I. Funds with the U.S. Treasury**

The NWCF's financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the DFAS, Military Services, and the U.S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the NWCF's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at Note 3. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

## **J. Foreign Currency**

Not Applicable.

## **K. Accounts Receivable**

As presented in the Balance Sheet, Accounts Receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. DoD does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against another federal agency are to be resolved between the agencies. Material disclosures are provided in Note 5.

## **L. Loans Receivable.**

Not Applicable.

## **M. Inventories and Related Property**

Federal accounting standards require that inventory and related property be appropriately categorized and valued using one of several historical-cost based methods. At present, inventories (exclusive of OM&S which are also considered part of the inventory and related property reporting line item) are reported at approximate historical cost using the Latest Acquisition Cost (LAC) adjusted for holding gains and losses. Past audit results identified uncertainties about the existence and completeness of quantities used to produce the reported values.

Inventory and related property reported on the financial statements are derived from logistics systems designed for material management purposes. Overall, these systems do not maintain the historical cost data necessary for proper valuation in compliance with federal accounting standards. In addition, while these logistics systems provide accountability and visibility for logistics purposes, they do not directly support the categorization of inventory and related property required by SFFAS No. 3, "Accounting for Inventory and Related Property." Neither can they directly produce financial transactions using the United States Government Standard General Ledger (USSGL), as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208).





The law distinguishes between "Inventory held for sale" and "Inventory held in reserve for future sale." There is no management or valuation difference between the two USSGL accounts. Further, DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. DoD holds material based on military need and support for contingencies. Therefore, DoD does not attempt to account separately for items held for "current" or "future" sale.

Related property includes Operating Materials and Supplies (OM&S) and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Department uses the consumption method of accounting for OM&S, for the most part, expensing material when it is issued to the end user. Where current systems cannot fully support the consumption method, DoD uses the purchase method - that is, expensed when purchased. For FY 2002, DoD reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

In July 2001, DoD adopted the moving average cost (MAC) method for valuing all DoD inventory and related property. MAC is another acceptable valuation method consistent with federal accounting standards but avoids the complications presented by the Adjusted LAC method. The policy allows the DoD components to implement the MAC method as systems are replaced or renovated.

During FY 2002 DoD examined transaction-driven methods that impact how inventory and related property are categorized and reported. Policy released in August 2002 requires inventory and related property to be categorized based upon specific coding assigned by logisticians that dictates whether an asset is ready and available for use or sale, requires repair, or is being held for other reasons. This represents an improvement over previous years reporting methods where, for example, Excess, Obsolete, and Unserviceable amounts were derived for financial reports using imprecise estimates not originally intended to support financial reporting.

The Department's new policy accounts for condemned material (only) as "Excess, Obsolete, and Unserviceable." The net value of condemned material is zero, because the costs of disposal are greater than the potential scrap value. Potentially redistributable material, presented in previous years as "Excess, Obsolete, and Unserviceable," is now included in the Available and Purchased for Resale, Held for Use or Held for Repair categories according to its condition.

Material disclosures related to inventory and related property are provided in Note 9.

#### **N. Investments in U.S. Treasury Securities**

Not Applicable.

#### **O. General Property, Plant and Equipment**

General PP&E assets are capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. Also, improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E are required to be capitalized. All General PP&E, other than land, is depreciated on a straight-line basis. Land is not depreciated.

Prior to FY 1996, General PP&E with an acquisition cost of \$15,000, \$25,000, and \$50,000 for FYs 1993, 1994, and 1995 respectively, and an estimated useful life of two or more years was capitalized. These assets remain capitalized and reported on WCF financial statements. General PP&E previously capitalized at amounts below \$100,000 were written off General Fund financial statements in FY 1998.

# Notes to the Principal Statements

For WCF activities, all PP&E used in the performance of their mission is categorized as General PP&E, whether or not it meets the definition of any other PP&E categories. Military Equipment, Heritage Assets and Stewardship Land owned or maintained on a WCF installation are reported in the Supplemental Stewardship Report of the applicable military department. To prevent duplicative reporting of the same Heritage Assets within DON, the total number of DON-wide Heritage Assets are reported in the Required Supplementary Stewardship Information (RSSI) of the Audited Financial Statements of the DON General Funds (Treasury Index 17).

The General Accounting Office (GAO) has determined that real property used by the NWCF, but under the jurisdiction of the Military Departments, represents an asset of the NWCF, and that such property should be reported on the financial statements as an entity asset to show the full costs of all resources and assets used in NWCF operations. DFAS is currently developing accounting and reporting procedures to allow NWCF to report finance sources and expenses associated with assets not acquired with NWCF resources (e.g., real property) as Other Revenues and Financing Sources and Depreciation and Amortization Expense.

Material disclosures are provided at Note 10.

## **P. Advances and Prepayments**

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

## **Q. Leases**

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) and the value equals or exceeds the current DoD capitalization threshold, the applicable asset and liability are recorded. The amount recorded is the lesser of the present value of the rental and other lease payments during the lease term, excluding that portion of the payments representing executory costs paid to the lessor, or the asset's fair value. Leases that do not transfer substantially all of the benefits or risks of ownership are classified as operating leases and recorded as expenses as payments are made over the lease term.

## **R. Other Assets**

The NWCF conducts business with commercial contractors under two primary types of contracts—fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the NWCF provides financing payments. One type of financing payment that the NWCF makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, "Accounting for Selected Assets and Liabilities," such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net. In addition, based on the provision of the FAR, the NWCF makes financing payments under fixed price contracts that are not based on a percentage of completion. The NWCF reports these financing payments as advances or prepayments in the "Other Assets" line item. The NWCF treats these payments as advances or prepayments because the NWCF becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the NWCF is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the NWCF for the full amount of the advance. The Department has completed a review of all applicable federal accounting standards; applicable public laws on contract financing FAR Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, "Prompt Payment." The Department has concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

Material disclosures are provided at Note 6.





**S. Contingencies and Other Liabilities**

The SFFAS No. 5, "Accounting for Liabilities of the Federal Government," defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the NWCF. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss can be reasonably estimated. Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The NWCF's loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

**T. Accrued Leave**

Civilian annual leave that has been accrued and not used as of the balance sheet date is reported as a liability. The liability reported at the end of the fiscal year reflects the current pay rates.

**U. Net Position**

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority which are unobligated and have not been rescinded or withdrawn, and amounts obligated but for which legal liabilities for payments have not been incurred.

Cumulative results of operations for WCF represents the excess of revenues over expenses less refunds to customers and returns to the U.S. Treasury since fund inception.

**V. Treaties for Use of Foreign Bases**

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. The DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements is retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Department. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any nonretrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

**W. Comparative Data**

The NWCF presents the current and previous year's financial data for comparative purposes. This data will be presented in the financial statements, as well as in the notes to the principal statements.

However, in FY 2002, the DFAS modified the financial statement presentation for the Statement of Net Cost, Statement of Changes in Net Position and the Statement of Financing. As a result, the corresponding NWCF statements during this reporting period may not provide data that can be used for comparative analysis. In some instances, amounts on the statements were reported on one financial statement line in FY 2001 and for FY 2002 have been split into multiple financial statement lines. This action was taken to ensure compliance with OMB guidance.

**X. Unexpended Obligations**

The NWCF records obligations for goods and services that have been ordered but not yet received. No liability for payment has been established in the financial statements because goods and services have yet to be delivered.



# Notes to the Principal Statements

## NOTE 2. NONENTITY AND ENTITY ASSETS

As of September 30,  
(Amounts in thousands)

	2002			2001
	Nonentity	Entity	Total	
<b>1. Intra-governmental Assets:</b>				
A. Fund Balance with Treasury	\$ 0	\$ 1,709,680	\$ 1,709,680	\$ 1,204,403
B. Investments	0	0	0	0
C. Accounts Receivable	0	525,240	525,240	894,349
D. Other Assets	0	266	266	29,500
E. Total Intra-governmental Assets	\$ 0	\$ 2,235,186	\$ 2,235,186	\$ 2,128,252
<b>2. Non-Federal Assets:</b>				
A. Cash and Other Monetary Assets	\$ 0	\$ 0	\$ 0	\$ 0
B. Accounts Receivable	0	80,901	80,901	109,737
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	17,655,864	17,655,864	17,885,914
E. General Property, Plant and Equipment	0	4,190,837	4,190,837	4,151,238
F. Other Assets	0	1,140,654	1,140,654	1,373,420
G. Total Non-Federal Assets	\$ 0	\$ 23,068,256	\$ 23,068,256	\$ 23,520,309
<b>3. Total Assets:</b>	\$ 0	\$ 25,303,442	\$ 25,303,442	\$ 25,648,561

### 4. Other Information:

Asset accounts are either categorized as entity or nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations, e.g., Accounts Payable. Nonentity accounts are assets that are held by an entity, but are not available for use in the operations of the entity, for example, cash held by a disbursing officer, as an agent of the Department of Treasury.

Included in the Entity Nonfederal Other Assets is an amount of \$1,256 thousand representing interest, penalties, fines & administrative fees. These fees do not belong to the NWCF and will be submitted to the Department of Treasury. These fees were reclassified from Non-Entity Nonfederal Other Assets as instructed by DFAS Arlington.

Detailed disclosures for Other Assets are provided in Note 6.



**NOTE 3. FUND BALANCE WITH TREASURY**

As of September 30,  
(Amounts in thousands)

**1. Fund Balances:**

- A. Appropriated Funds
- B. Revolving Funds
- C. Trust Funds
- D. Other Fund Types
- E. Total Fund Balances

2002	2001
\$ 0	\$ 0
1,709,680	1,204,403
0	0
0	0
<u>\$ 1,709,680</u>	<u>\$ 1,204,403</u>

**2. Fund Balances Per Treasury Versus Agency:**

- A. Fund Balance per Treasury
- B. Fund Balance per NWCF
- C. Reconciling Amount

\$ 1,709,680	\$ 1,204,403
1,709,680	1,204,403
<u>\$ 0</u>	<u>\$ 0</u>

**3. Explanation of Reconciliation Amount:** None**4. Other Information Related to Fund Balance with Treasury:**

The Fund Balance with Treasury of \$1,709,680 thousand reflects the FY 2001 ending balance of \$1,204,403 thousand plus FY 2002 collections, disbursements, and non-expenditure transfers recorded in the NWCF Treasury sub-limit 97X4930.002. The following table details the amounts recorded in FY 2002:

Collections	\$ 23,771,581
Disbursements	(23,070,077)
Non-expenditure Transfers, Net	(196,227)

The non-expenditure transfers, as recorded on SF 1151, Non Expenditure Transfer Authorization, are comprised of Transfers-in of \$62,588 thousand and Transfers-out of \$(258,815) thousand. The transfers had an effect on the following NWCF Activities:

<u>Activity</u>	<u>(in thousands) Non-expenditure Transfers</u>
Transportation	\$ (196,227)
Information Services	(62,588)
Research & Development	18,776
Supply Management, Navy	43,812
Total	<u>\$ (196,227)</u>

The Intra-governmental Payment and Collection (IPAC) differences are reconcilable differences that represent amounts recorded by Treasury but not reported by the organization. As of September 30, 2001 and 2002, there was \$1,648 thousand and \$16,743 thousand, respectively, of IPAC differences greater than 180-days old. A majority of the differences represent internal DoD transactions and therefore do not affect the FBWT at the DoD consolidated level. For individual entity level statements, however, these differences would affect the amount reported for the FBWT. The Department is working with the DFAS sites, the Department of the Treasury, and a Treasury Department contractor to develop an automated tool to aid in reconciling the Treasury's Statement of Differences. The accounting and paying centers established metrics and implemented monthly reporting requirements for FY 2001. These actions will aid the NWCF in clearing many of the old balances and establishing better internal controls over the IPAC process.

The Fund Balance with Treasury increased materially from FY 2001 to FY 2002 primarily as a result of an increase in customer work in FY 2002 for Research & Development's Space and Naval Warfare Systems Centers (SSCs).



# Notes to the Principal Statements

## NOTE 4. INVESTMENTS

Not Applicable.

## NOTE 5. ACCOUNTS RECEIVABLE

As of September 30,  
(Amounts in thousands)

	2002			2001
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
<b>1. Intra-governmental Receivables:</b>	\$ 525,240	N/A	\$ 525,240	\$ 894,349
<b>2. Non-Federal Receivables (From the Public):</b>	\$ 80,901	\$ 0	\$ 80,901	\$ 109,737
<b>3. Total Accounts Receivable:</b>	<u>\$ 606,141</u>	<u>\$ 0</u>	<u>\$ 606,141</u>	<u>\$ 1,004,086</u>

### 4. Allowance method:

Under SFFAS No. 1, an allowance for uncollectible Accounts Receivable nonfederal should be recognized to reduce the gross amount of receivables to net realizable value. The DoD FMR cites the requirement of GAO and the Department of the Treasury that federal agencies establish allowances for uncollectible accounts. The NWCF is not in compliance with this requirement. The NWCF requires an advance payment from non-federal customers prior to starting work, therefore, the NWCF uses the direct write-off method for Accounts Receivable non-federal when an account is determined to be uncollectible. During FY 2002, there were \$190,435 thousand dollars written off for uncollectible amounts owed by nonfederal customers. Amounts reported for non-federal receivables represent bills that were produced at the end of the year for which payment has not been received or amounts that have not been matched with the prepayment and advance account.

### 5. Other information:

The amount of public receivables and intragovernmental receivables over 180-days old is \$24,384 thousand and \$64,541 thousand, respectively.

Intragovernmental Accounts Receivable decreased materially from FY 2001 to FY 2002 primarily as a result of the final billing for FY 2002 not being completed as of 30 September 2002 for Research and Development's Naval Surface Warfare Center (NSWC) and Naval Undersea Warfare Center (NUWC).

Accounts Receivable Nonfederal decreased materially from FY 2001 to FY 2002. This decrease is primarily due to a significant decrease in Foreign Military Sales (FMS) for Supply Management, Navy and a Defense Industrial Financial Management System (DIFMS) system change which automated the matching of advances to accounts receivable for the Industrial Fund activities.

Supported undistributed and unmatched collections were required to be reported against Accounts Receivable. In FY 2002, supported undistributed collections in the amount of \$307,831 thousand were applied against Accounts Receivable.

For the non-supply NWCF business areas, supported undistributed collections were allocated entirely among intragovernmental Accounts Receivable since the non-federal Accounts Receivable balances were immaterial. In contrast, the total supported undistributed collections for the Supply Management, Navy business area were allocated between intragovernmental and non-federal. This allocation was based on the ratio of the balances recorded for each category as of 30 September 2002.



Unsupported undistributed collections intragovernmental for Supply Management, Navy were offset against unsupported undistributed disbursements and posted to Accounts Payable - Disbursements in Transit. There were no unsupported undistributed collections for non-supply NWCF business areas.

Supply Management, Navy has several activities that report financial data from the Financial Inventory Reporting (FIR) System. In the system, cash sales are posted to current year collections instead of being recorded directly as an account receivable. However, since undistributed collections are netted to Accounts Receivable, the resulting balance in Accounts Receivable is correctly stated. This process results from the inability of the FIR System to report trial balance data. Currently, DFAS is in the process of converting the FIR System users to the Material Financial Control System (MFCS). Implementation dates of MFCS for the remaining users are as follows: Fleet and Industrial Supply Center Yokosuka – January 2003, Naval Submarine Support Facility New London, Construction Battalion Center Port Hueneme, and Trident Refit Facility Kings Bay – March 2003. MFCS will enable these activities to properly record cash sales as Accounts Receivable rather than influencing the balance of Accounts Receivable through undistributed collections.

The NWCF's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the NWCF was unable to reconcile intragovernmental Accounts Receivable balances with its trading partners. DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

For reporting purposes, the Accounts Receivable balance has been affected by adjustments made to facilitate the DoD and federal-wide consolidation process, which are discussed in Note 1.



# Notes to the Principal Statements

## NOTE 6. OTHER ASSETS

As of September 30,  
(Amounts in thousands)

	2002	2001
<b>1. Intra-governmental Other Assets:</b>		
A. Advances and Prepayments	\$ 266	\$ 29,500
B. Other Assets	0	0
C. Total Intra-governmental Other Assets	\$ 266	\$ 29,500
<b>2. Non-Federal Other Assets:</b>		
A. Outstanding Contract Financing Payments	\$ 0	\$ 0
B. Other Assets (With the Public)	1,140,654	1,373,420
C. Total Non-Federal Other Assets	\$ 1,140,654	\$ 1,373,420
<b>3. Total Other Assets:</b>	<u>\$ 1,140,920</u>	<u>\$ 1,402,920</u>
<b>4. Other Information Related to Other Assets:</b>		

Intragovernmental Other Assets has decreased materially from FY 2001 to FY 2002 primarily due to the reversal of a prior year elimination adjustment to reflect Unearned Revenue – Advances from Others for Supply Management, Navy.

The Advances and Prepayments balance has been adjusted to reflect the “Advances from Others” balances as reported on the books of the sellers (other DoD reporting entities). These adjustments are made to facilitate the DoD and federal-wide consolidation process, which are discussed in Note 1.

Other Assets (With the Public) has decreased materially from FY 2001 to FY 2002 as a result of the FY 2002 reduction of the related outstanding debt principal amount reported for the Transportation Activity Group.

Other Assets (With the Public) includes an amount of \$739,280 thousand relating to the outstanding debt principal amount reported for the Transportation Activity Group involving Time Charter arrangements made by Military Sealift Command (MSC) for the long-term use of the Afloat Prepositioning Force – Navy (APF-N) Ships. The outstanding debt principal amount is reported in the NWCF Balance Sheet Other Assets (With the Public) in order to reconcile with the amount reported by the Federal Financing Bank through the trading partner elimination process. See Note 13 for material disclosures.

Other Assets (With the Public) also includes inventory returned to suppliers by Supply Management, Marine Corps with a credit pending in the amount of \$172,854 thousand, progress payments made by Supply Management, Navy amounting to \$110,670 thousand, and revenue earned but not billed by Depot Maintenance, Shipyards amounting to \$90,561 thousand. The remaining amounts of \$10,685 thousand, \$9,877 thousand, \$3,367 thousand, and \$3,358 thousand represents advances, deferred charges, PP&E awaiting disposal, and unallocated costs, respectively.



## NOTE 7. CASH AND OTHER MONETARY ASSETS

Not Applicable.

## NOTE 8. DIRECT LOANS AND LOAN GUARANTEES, NONFEDERAL BORROWERS

Not Applicable.

## NOTE 9. INVENTORY AND RELATED PROPERTY, NET

As of September 30,  
(Amounts in thousands)

	2002	2001
1. Inventory, Net (Note 9.A.)	\$ 17,012,566	\$ 17,290,476
2. Operating Materials & Supplies, Net (Note 9.B.)	643,298	595,438
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	<u>\$ 17,655,864</u>	<u>\$ 17,885,914</u>

### NOTE 9.A. INVENTORY, NET

As of September 30,  
(Amounts in thousands)

	2002			2001	
	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	Inventory, Net	Valuation Method
<b>1. Inventory Categories:</b>					
A. Available and Purchased for Resale	\$ 15,320,204	\$ (10,864,011)	4,456,193	\$ 6,410,049	LAC
B. Held for Repair	14,780,423	(2,984,304)	11,796,119	9,804,105	LAC
C. Excess, Obsolete, and Unserviceable	540,204	(540,204)	0	103,563	SP
D. Raw Materials	0	0	0	0	
E. Work in Process	760,253	0	760,254	972,759	AC
F. Total	<u>\$ 31,401,084</u>	<u>\$ (14,388,519)</u>	<u>17,012,566</u>	<u>\$ 17,290,476</u>	

#### Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses holding gains and losses

NRV = Net Realizable Value

O = Other

SP = Standard Price

AC = Actual Cost

#### 2. Restrictions of Inventory Use, Sale, or Disposition:

Generally, there are no restrictions with regard to the use, sale, or disposition to applicable DoD activities and personnel. Other than certain safety and war reserve levels, inventory may be sold to foreign, state and local governments, private parties and contractors in accordance with DoD, DFAS and DON policies and guidance or at the direction of the President.

#### 3. Other Information:

Except for Work in Process, all Inventory categories shown in the table above apply to the Supply Management Activity only.

**Inventory Categories.** Inventory represents property that is (1) held for sale, (2) in the process of production for sale or (3) to be consumed in the production of goods for sale or in the provision of services for a fee.



# Notes to the Principal Statements

**Inventory Available and Purchase for Resale** includes consumable spare and repair parts and repairable items owned and managed by the DON. In some cases, the consumable and repairable items are managed by other Services, the Defense Logistics Agency (DLA), or the General Services Administration (GSA). Material available and purchased for resale includes material held due to a managerial determination that it should be retained to support military or national contingencies. Therefore, the DON is not able to designate in any meaningful or practical way those items held for "current" sale versus those held for "future" sale as required by federal accounting standards. However, based on budgetary projections, the value of inventory expected to be sold in the next fiscal year is \$4,186,910 thousand net, which could be described as "Inventory Held for Sale." The remainder of the inventory available for sale, \$269,282 thousand net, could be considered "Inventory Held for Future Sale." There is no management or valuation difference between the two categories. See footnote disclosure 1.M., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing inventory and related property.

The Supply Management, Navy value of War Reserve Material is \$207,144 thousand. The Supply Management, Marine Corps value of War Reserve Material is \$67,732 thousand. These values are included in Note 9.A. line, Available and Purchased for Resale.

**Inventory Held for Repair** is damaged inventory that requires repair to make suitable for sale. Many of the inventory items are more economical to repair than to procure. In addition, because the DON often relies on weapon systems and machinery no longer in production, the DON supports a process that encourages the repair and rebuilding of certain items. This repair cycle is an essential part of maintaining a ready, mobile, and armed military force.

**Excess, Obsolete, and Unserviceable** inventory consists of scrap materials or items that cannot be economically repaired and are awaiting disposal. The DON does not anticipate recovering any significant costs as result of final disposal of these items. Therefore, beginning with the FY 2002 financial statements, Excess, Obsolete, and Unserviceable inventory will reflect a net realizable value of zero.

**Work in Process** balances include costs related to the production or servicing of items, including direct material, direct labor, applied overhead and other direct costs. Work in Process also includes the value of finished products or completed services pending billing to the customer. The Work in Process designation may also be used to accumulate the amount paid to a contractor under cost reimbursable contracts, including the amount withheld from payment to ensure performance, and the amount paid to other Government plants for accrued costs of end items of material ordered but not delivered.

## **Significant Internal Control Weakness:**

The general ledger values in the accounting system do not reconcile with the supporting detail records in the Navy segment of the Supply Management Activity logistics system. Analysis of this out-of-balance condition revealed a net discrepancy of approximately \$1,935,285 thousand at LAC as of September 30, 2002. In FY 2002, Navy Supply Management established a team to identify and correct problems that are directly related to the reconciling differences. Journal vouchers have been provided by DFAS to correct the imbalance. Once approved, the accounting entries will be made to ensure the source records maintained in the logistic system reconcile to the accounting records.





## NOTE 9.B. OPERATING MATERIALS AND SUPPLIES, NET

As of September 30,  
(Amounts in thousands)

	2002			2001	
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	Valuation Method
<b>1. OM&amp;S Categories</b>					
A. Held for Use	\$ 643,298	\$ 0	\$ 643,298	\$ 595,438	0
B. Held for Repair	0	0	0	0	
C. Excess, Obsolete, and Unservicable	0	0	0	0	
D. Total	<u>\$ 643,298</u>	<u>\$ 0</u>	<u>\$ 643,298</u>	<u>\$ 595,438</u>	

### Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost adjusted for holding gains and losses

NRV = Net Realizable Value

O = Other

SP = Standard Price

AC = Actual Cost

### 2. Restrictions on OM&S:

Generally, there are no restrictions with regard to the use, sale, or disposition of Operating Materials and Supplies (OM&S) to applicable DoD activities.

### 3. Other Information:

**OM&S Held for Use** represents property that is consumed during the normal operations and includes consumable spare and repair parts for use on customer work by various activities. The items are primarily recorded at weighted average cost and charged as an expense when used, sold, or issued. This process is indicative of the consumption method of accounting and complies with federal accounting standards. The DON is not able to designate in any meaningful or practical way those items held for "current" use versus those held for "future" use as required by federal accounting standards. However, based on budgetary projections, the value of OM&S expected to be used in the next fiscal year is \$643,285 thousand, which could be described as "OM&S Held for Use." The remainder of the OM&S available for use, \$14,000 thousand, could be considered "OM&S Held for Future Use." There is no management or valuation difference between the two categories. See footnote disclosure 1.M., Significant Accounting Policies, for additional discussion on financial reporting requirements and DoD policies governing inventory and related property.

## NOTE 9.C. STOCKPILE MATERIALS, NET

Not Applicable.



# Notes to the Principal Statements

## NOTE 10. GENERAL PROPERTY, PLANT AND EQUIPMENT, NET

As of September 30,  
(Amounts in thousands)

	2002					2001
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
<b>1. Major Asset Classes:</b>						
A. Land	N/A	N/A	\$ 63,773	N/A	\$ 63,773	\$ 63,833
B. Buildings, Structures, and Facilities	S/L	20 Or 40	6,464,963	\$ (4,023,692)	2,441,271	2,435,191
C. Leasehold Improvements	S/L	lease term	302	(103)	199	0
D. Software	S/L	2-5 Or 10	250,966	(158,703)	92,263	82,021
E. Equipment	S/L	5 Or 10	3,373,968	(2,425,058)	948,910	1,094,028
F. Assets Under Capital Lease <sup>1</sup>	S/L	lease term	0	0	0	0
G. Construction-in-Progress	N/A	N/A	644,421	N/A	644,421	476,165
H. Other			0	0	0	0
I. Total General PP&E			<u>\$ 10,798,393</u>	<u>\$ (6,607,556)</u>	<u>\$ 4,190,837</u>	<u>\$ 4,151,238</u>

<sup>1</sup>Note 15.B for additional information on Capital Leases

### Legend for Valuation Methods:

S/L = Straight Line      N/A = Not Applicable

## 2. Other Information:

The acquisition value of fully depreciated assets included in the table above and reported in the Balance Sheet amount to \$2,704,709 thousand as of 30 September 2002.

Included in the Major Asset Classes disclosed in Note 10 are assets totaling \$335,873 thousand located Outside of the Continental United States (OCONUS).

For those activities with General PP&E real property in the possession of contractors, the value of this real property is included in the values reported above for the Major Asset Classes of Buildings, Structures, and Facilities. The value of personal property in Major Asset Classes of Automated Data Processing (ADP) Software and Equipment does not include all of the General PP&E in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. In accordance with an approved strategy with the OMB, the GAO, and the Inspector General, DoD, the Department is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with federal-wide accounting standards.

## NOTE 10.A. ASSETS UNDER CAPITAL LEASE

None.





## NOTE 11. LIABILITIES NOT COVERED AND COVERED BY BUDGETARY RESOURCES

As of September 30,  
(Amounts in thousands)

	2002			2001
	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total	
<b>1. Intra-governmental Liabilities:</b>				
A. Accounts Payable	\$ 434,772	\$ 0	\$ 434,772	\$ 462,946
B. Debt	750,725	0	750,725	888,306
C. Environmental Liabilities	0	0	0	0
D. Other	177,808	0	177,808	119,102
E. Total Intra-governmental Liabilities	\$ 1,363,305	\$ 0	\$ 1,363,305	\$ 1,470,354
<b>2. Non-Federal Liabilities:</b>				
A. Accounts Payable	\$ 1,799,671	\$ 0	\$ 1,799,671	\$ 1,041,391
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	1,325,926	1,325,926	1,372,651
C. Environmental Liabilities	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	2,807,834	0	2,807,834	4,045,593
F. Total Non-Federal Liabilities	\$ 4,607,505	\$ 1,325,926	\$ 5,933,431	\$ 6,459,635
<b>3. Total Liabilities:</b>	<u>\$ 5,970,810</u>	<u>\$ 1,325,926</u>	<u>\$ 7,296,736</u>	<u>\$ 7,929,989</u>

### 4. Other Information:

Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year. Available budgetary resources include: (1) new budget authority, (2) spending authority from offsetting collections (credited to an appropriation or fund account), (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations, (4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having to be met.

Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.

Included in the Nonfederal Other Liabilities Covered by Budgetary Resources is an amount of \$1,256 thousand representing interest, penalties, fines & administrative fees. These fees do not belong to the NWCF and will be submitted to the Department of Treasury. These fees were reclassified from Nonfederal Other Liabilities Not Covered by Budgetary Resources as instructed by DFAS Arlington.

Detailed disclosures for Other Liabilities are provided in Note 15.A.

# Notes to the Principal Statements

## NOTE 12. ACCOUNTS PAYABLE

As of September 30,  
(Amounts in thousands)

	2002			2001
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
1. Intra-governmental Payables:	\$ 434,772	N/A	\$ 434,772	\$ 462,946
2. Non-Federal Payables (to the Public):	\$ 1,799,671	\$ 0	\$ 1,799,671	\$ 1,041,391
3. Total	<u>\$ 2,234,443</u>	<u>\$ 0</u>	<u>\$ 2,234,443</u>	<u>\$ 1,504,337</u>

### 4. Other Information:

Intragovernmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties, and administrative fees are not applicable to intragovernmental payables. Non-Federal payables (to the Public) are payments to nonfederal government entities.

Accounts Payable Nonfederal increased materially from FY 2001 to FY 2002 due to the reclassification of (\$1,044,715) thousand of unsupported undistributed disbursements allocated from the DWCF Corporate Account to Other Liabilities Nonfederal. This allocation was reclassified from Accounts Payable Nonfederal to eliminate the distortion of the true NWCF undistributed amount. See Note 15 for detail disclosures.

In FY 2002, supported undistributed disbursements in the amount of \$399,780 thousand have been applied against Accounts Payable.

The majority of the undistributed disbursements represent Mechanization of Contract Administration Services (MOCAS) payments, which have not been liquidated. MOCAS payments represent those payments made to contractors for materials or services that are greater than \$2,500 dollars. Accruals are made when the service is performed and remains in this account until the provider submits an invoice for payment. Therefore, if a copy of the invoice is not received by the NWCF activity prior to DFAS making payment, the payment will go to undistributed disbursements. The amounts accrued to cover the anticipated materials and services are captured as Contract Accruals on the Other Accrued Expense line (Note 15.A., Other Liabilities, Nonfederal: Other Liabilities) and are not considered an Accounts Payable.

Unsupported undistributed disbursements were offset against unsupported undistributed collections and posted to Accounts Payable - Disbursements in Transit.

For the majority of intra-agency sales, NWCF's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the NWCF was unable to reconcile intragovernmental Accounts Payable to the related intragovernmental Accounts Receivable that generated the payable. The DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

The DoD summary level seller Accounts Receivables were compared to NWCF's Accounts Payable. An adjustment was posted to the NWCF's Accounts Payable based on the comparison with the Accounts Receivable of the DoD Components providing goods and services to the NWCF's. The adjustments were posted to Navy Component Accounts Payable requiring a reclassification from Federal to Public. The adjustments are made to facilitate the DoD and federal-wide consolidation process, which are discussed in Note 1.



## NOTE 13. DEBT

As of September 30,  
(Amounts in thousands)

	Beginning Balance	2002 Net Borrowings	Ending Balance	2001 Ending Balance
<b>1. Public Debt:</b>				
A. Held by Government Accounts	N/A	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A	N/A
<b>2. Agency Debt:</b>				
A. Debt to the Treasury	\$ 0	\$ 0	\$ 0	\$ 0
B. Debt to the Federal Financing Bank	888,307	(137,582)	750,725	888,306
C. Debt to Other Federal Agencies	0	0	0	0
D. Total Agency Debt	\$ 888,307	\$ (137,582)	\$ 750,725	\$ 888,306
<b>3. Total Debt:</b>	<u>\$ 888,307</u>	<u>\$ (137,582)</u>	<u>\$ 750,725</u>	<u>\$ 888,306</u>
<b>4. Classification of Debt:</b>				
A. Intra-governmental Debt			\$ 750,725	\$ 888,306
B. Non-Federal Debt			N/A	N/A
C. Total Debt			<u>\$ 750,725</u>	<u>\$ 888,306</u>

### 5. Other Information:

The Afloat Prepositioning Force (APF-N) program, with Congressional approval, provides ships for Time Charter to meet requirements not available in the marketplace. These ships are built or converted by private Interim Vessel Owners using private, non-government financing obtained from various banking institutions. There were no payments made by the government during the building/conversion phase. APF-N Time Charters are for five years with four option renewal periods of five years each, for a total of 25 years. At the end of the contract, each ship returns to the vessel's owner.

The Federal Financing Bank (FFB) is one of the institutions that provided loans to the vessel owners. The FFB is reporting a debt in the amount of \$750,724 thousand, which represents an outstanding principal balance of \$739,280 thousand and accrued interest payable of \$11,444 thousand, for the Transportation Activity. This information is being presented in error as the transportation activity group does not owe this debt to the FFB. This debt is a public debt owed by the private vessel owners. In order to simplify the payments to the FFB and to meet their requirements, the FFB cross-disburses the semi-annual principal and interest payments directly from the NWCF. This is done instead of having the Military Sealift Command (MSC) make Capital Hire payments to the vessel owners, who would in turn make its loan obligation payments to the FFB.

The direction of the vessel owner to have the government make payments directly to a bank, in this case the FFB, is not an uncommon practice, and mirrors other Time Charters where payment is assigned directly to a bank. This is what occurred when the ownership of these vessels was transferred to private vessel owners; however, the FFB when establishing the loan coded the loan as a government debt.

As required by USD(C) memorandum of 22 January 1999, MSC is correctly recording these payments as an operating expense. However, the outstanding debt principal amount is reported in the NWCF Balance Sheet as an Other Asset in order to reconcile with the amount reported by the FFB through the trading partner elimination process. The misclassification by the FFB has generated this long-standing reporting problem. See Note 6 for additional disclosures.



# Notes to the Principal Statements

As required by the DoD Appropriation Act passed in December 1985 ten percent of the fifth year termination value of the vessels be obligated from Operation and Maintenance, Navy funds. This was completed as each vessel was delivered.

Intragovernmental Debt has decreased materially from FY 2001 to FY 2002 as a result of the FY 2002 reduction of the outstanding debt principal amount reported for the Transportation Activity Group.

## NOTE 14. ENVIRONMENTAL RESTORATION LIABILITIES AND ENVIRONMENTAL DISPOSAL LIABILITIES

Not Applicable.

## NOTE 15.A. OTHER LIABILITIES

As of September 30,  
(Amounts in thousands)

	2002			2001
	Current Liability	Noncurrent Liability	Total	Total
<b>1. Intra-governmental:</b>				
A. Advances from Others	\$ 141,318	\$ 0	\$ 141,318	\$ 81,416
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	0	0	0	0
D. Resources Payable to Treasury	0	0	0	0
E. Disbursing Officer Cash	0	0	0	0
F. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accounts Payable--Cancelled Appropriations	0	0	0	0
H. Judgement Fund Liabilities	0	0	0	0
I. FECA Reimbursement to the Department of Labor	0	0	0	0
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	36,490	0	36,490	37,686
L. Total Intra-governmental Other Liabilities	\$ 177,808	\$ 0	\$ 177,808	\$ 119,102



As of September 30,  
(Amounts in thousands)

	2002			2001
	Current Liability	Noncurrent Liability	Total	Total
<b>2. Non-Federal:</b>				
A. Accrued Funded Payroll and Benefits	\$ 710,275	\$ 0	\$ 710,275	\$ 712,126
B. Advances from Others	138,651	0	138,651	141,466
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0	0
G. Temporary Early Retirement Authority	0	0	0	0
H. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
I. Accounts Payable--Cancelled Appropriations	0	0	0	0
J. Accrued Unfunded Annual Leave	0	0	0	0
K. Accrued Entitlement Benefits for Military Retiree and Survivors	0	0	0	0
L. Capital Lease Liability	0	0	0	0
M. Other Liabilities	1,958,908	0	1,958,908	3,192,001
N. Total Non-Federal Other Liabilities	2,807,834	0	2,807,834	4,045,593
<b>3. Total Other Liabilities:</b>	<u>\$ 2,985,642</u>	<u>\$ 0</u>	<u>\$ 2,985,642</u>	<u>\$ 4,164,695</u>

#### 4. Other Information Pertaining to Other Liabilities:

Intragovernmental Other Liabilities, represents liabilities of \$36,490 thousand for fringe benefits and the Voluntary Separation Incentive Program.

Non-federal Advances from Others, includes \$54,529 thousand in Advances from foreign governments under the Cooperative Logistics Supply Support Arrangements program. These Advances are used by the Supply Management, Navy to procure additional levels of inventory to support the military requirements of a foreign government. The additional level of inventory is necessary to both ensure timely response to the needs of the foreign customer and to preclude the satisfaction of foreign customer requirements from impacting the capability to satisfy DoD requirements.

Nonfederal Other Liabilities, includes amounts that are significant portions of the total liabilities presented in the NWCF Balance Sheet. A breakout of the major components of Other Liabilities follows.

Title	Amount (in thousands)
Accrual of Contractual Services	\$1,979,425
Depot Level Repairable Carcass Return Liability	1,351,267
Other Liabilities	(1,373,786)
Contract Holdback	2,002
Total, Nonfederal Other Liabilities	\$1,958,908



# Notes to the Principal Statements

The accrual of contractual services of \$1,979,425 thousand represents an accrued liability for direct work performed by contractors or material and supplies purchased for a direct order in which a request for payment has not been received. The accrual is based on the level of effort performed for the direct order on a monthly basis.

The Depot Level Repairable Carcass Return Liability of \$1,351,267 thousand represents the value of returned depot level repairable carcasses that have been received by an accountable activity from an end-use activity but for which an issue has not yet been processed.

The Other Liabilities amount of \$(1,373,786) thousand includes a \$(1,044,715) thousand allocation of unsupported undistributed disbursements. This allocation was based on a DFAS memorandum dated 10 October 1997 which directed the allocation of undistributed disbursements to the DoD services from their DWCF corporate account. As this allocation is not supported by specific transactional information, which would identify the value as belonging to the NWCF, the allocation continues to remain on the books at the Navy Component level. Continual effort is underway to obtain transactional information in order to allocate these funds to the appropriate NWCF activity.

The remainder of the Other Liabilities amount consists primarily of Progress Payments and Property Furnished by Others Liability. Progress Payments are maintained to show the balance of progress payments taken for accrued costs charged to Work in Process or the value of material procured and held for specific orders received from customers within the Department of Defense. The Liability for Property Furnished by Others represents the value of inventory in-transit from one accountable activity but not yet received by another accountable activity.

Intragovernmental Other Liabilities increased materially from FY 2001 to FY 2002 primarily as a result of an increase in Advances from Others for Depot Maintenance Shipyards. Depot Maintenance Shipyards is allowed to bill up to their stabilized costs, however revenue is earned based on percentage of work completed. Therefore, there may be a difference (e.g. deferred charges or liability) between what is billed and what is recognized as earned. The increase in Advances from Others occurred since we have collected more than we have earned. Upon completion of work, the difference will clear.

Other Liabilities Nonfederal decreased materially from FY 2001 to FY 2002 due to the reclassification of the \$(1,044,715) thousand of unsupported undistributed disbursements allocated from the DWCF Corporate Account discussed above from Accounts Payable Nonfederal. This allocation was reclassified to Other Liabilities Nonfederal to eliminate the distortion of the true NWCF undistributed amount.

NWCF was able to reconcile major fiduciary balances with the Office of Personnel Management. The reconciliation amount was based on amounts taken from Defense Civilian Pay System.

For reporting purposes, the other liabilities balance has been affected by adjustments made to facilitate the DoD and federal-wide consolidation process, which are discussed in Note 1.

## NOTE 15.B. CAPITAL LEASE LIABILITY

None.

## NOTE 16. COMMITMENTS AND CONTINGENCIES

Disclosures Related to Commitments and Contingencies:

None.





## NOTE 17. MILITARY RETIREMENT BENEFITS AND OTHER EMPLOYMENT RELATED ACTUARIAL LIABILITIES

As of September 30,  
(Amounts in Thousands)

	2002			2001
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate(%)	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability
<b>1. Pension and Health Benefits:</b>				
A. Military Retirement Pensions	\$ 0		\$ 0	\$ 0
B. Military Retirement Health Benefits	0		0	0
C. Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Benefits	\$ 0		\$ 0	\$ 0
<b>2. Other:</b>				
A. FECA	\$ 1,325,926		\$ 0	\$ 1,325,926
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Education Benefits Fund	0		0	0
D.	0		0	0
E. Total Other	\$ 1,325,926		\$ 0	\$ 1,325,926
<b>3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:</b>	<u>\$ 1,325,926</u>		<u>\$ 0</u>	<u>\$ 1,325,926</u>

### 4. Other Information Pertaining to Military Retirement Benefits and Other Employment-Related Actuarial Liabilities:

Actuarial Cost Method Used: The liability for Workmen's Compensation (FECA) includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The Department of Labor (DOL) provided the amount of \$2,872,301 thousand to DoD as the actuarial liability estimate for DON's FECA. This amount was distributed between the NWCF \$1,325,926 thousand and DON General Funds \$1,546,375 thousand based upon the number of civilian employees funded in each entity as reported in the Navy Budget Tracking System for FY 2002.

Assumptions: Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits. In computing the projected annual benefit payments, the interest rate assumptions used in the discount calculations were as follows:

2002

5.20% in year 1,

5.20% in year 2, and thereafter

Market Value of Investments in Market-based and Marketable Securities: Not Applicable.

## NOTE 18. UNEXPENDED APPROPRIATIONS

Not Applicable.



# Notes to the Principal Statements

## NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF THE NET COST

### NOTE 19.A GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Disclosures Related to the Statement of Net Cost:

While the Navy's WCFs generally record transactions on an accrual basis as required by federal generally accepted accounting principles, the systems do not always capture actual costs. Information presented on the Statement of Net Cost represent the net result of post-closing adjustments and eliminating entries made in compiling and consolidating the NWCF financial statements. These entries significantly affected the reported amounts of Intragovernmental Program Cost, Program Cost with the Public, Earned Revenue and Net Program Cost.

The post-closing adjustments were made in order to increase or decrease certain NWCF account balances reported as of 30 September 2002 to ensure agreement with related balances reported by other DoD and other federal reporting entities. Eliminating entries are required adjustments made as part of a process instituted to enable matching eliminating entries to be recorded at each financial statement consolidation level — the NWCF, DoD and Federal Government levels.

Additional details on procedures followed for adjustments and eliminating entries including the effects on the financial statements are provided in Notes 1.

The Statement of Net Cost was impacted by the recording of Prior Period Adjustments (PPAs) in the amount of (\$124,306) thousand as current year transactions. See Note 20 for detail disclosures.

The NWCF financial statements have recognized an imputed expense for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed expenses for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).

For FY 2002, Judgment Fund claims are reported in the Navy GF statements and notes.

### NOTE 19.B. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

Not Applicable.

### NOTE 19.C. GROSS COST TO GENERATE INTRA-GOVERNMENTAL REVENUE AND EARNED REVENUE (TRANSACTIONS WITH OTHER FEDERAL—NON-DoD—ENTITIES) BY BUDGET FUNCTIONAL CLASSIFICATION

Not Applicable.





#### NOTE 19.D. IMPUTED EXPENSES

As of September 30,  
(Amount in thousands)

1. Civilian (e.g., CSRS/FERS) Retirement
2. Civilian Health
3. Civilian Life Insurance
4. Military Retirement Pension
5. Military Retirement Health
6. Judgment Fund
7. Total Imputed Expenses

	2002	2001
1. Civilian (e.g., CSRS/FERS) Retirement	\$ 205,147	\$ 223,285
2. Civilian Health	259,494	249,179
3. Civilian Life Insurance	948	929
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	0	0
7. Total Imputed Expenses	<u>\$ 465,589</u>	<u>\$ 473,393</u>

#### NOTE 19.E. BENEFIT PROGRAM EXPENSES

Not Applicable.

#### NOTE 19.F. EXCHANGE REVENUE

Disclosures Related to the Exchange Revenue:  
None.

#### NOTE 19.G. AMOUNTS FOR FOREIGN MILITARY SALES (FMS) PROGRAM PROCUREMENTS FROM CONTRACTORS

Disclosures Related to Amounts for FMS Program Procurements from Contractors:  
Not Applicable.

#### NOTE 19.H. STEWARDSHIP ASSETS

Disclosures Related to Stewardship Assets:  
Not Applicable.

#### NOTE 19.I. INTRA-GOVERNMENTAL REVENUE AND EXPENSE

Disclosures Related to Intra-governmental Revenue and Expense:

The NWCF accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the NWCF was unable to reconcile intragovernmental revenue balances with its trading partners. DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for the after-the-fact reconciliations. The volume of intragovernmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

The NWCF operating expenses were adjusted based on a comparison between the NWCF's Accounts Payable and the DoD summary level seller Accounts Receivables. Adjustments were posted to Accounts Payable and operating expenses to reflect the following reported balances: other trading partners; Federal Financing Bank payments for debt; prior period adjustment restatement to current years operations; interest, penalties, fines & administrative fees data call; and resolution of abnormal accounts payables in accordance with current guidance. The operating expenses of the NWCF were adjusted downwards in the net amount of \$725,488 thousand.

# Notes to the Principal Statements

OMB has established a working group to review the current business practices in place to capture the data exchanged between federal agencies; and to determine what changes need to be incorporated. DON NWCF has representation on the USD(C) group which is working directly with OMB to ensure that all aspects (e.g., financial, logistics and security) of the DoD are given full consideration. Based on the large volume of intragovernmental transactions that occur this project is a major undertaking and will take several years to complete with the ultimate goal of having this process totally automated.

## NOTE 19.J. SUBORGANIZATION PROGRAM COSTS

Not Applicable.

## NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

As of September 30,  
(Amount in thousands)

	Cumulative Results of Operations 2002	Unexpended Appropriations 2002	Cumulative Results of Operations 2001	Unexpended Appropriations 2001
<b>1. Prior Period Adjustments Increases (Decreases) to Net Position</b>				
<b>Beginning Balance:</b>				
A.Changes in Accounting Standards	\$ 0	\$ 0	\$ 0	\$ 0
B.Errors and Omissions in Prior Year Accounting Reports	1,952,397	0	(1,168,965)	0
C.Other Prior Period Adjustments	0	0	7,334	0
D. Total Prior Period Adjustments	<u>\$ 1,952,397</u>	<u>\$ 0</u>	<u>\$ (1,161,631)</u>	<u>\$ 0</u>
<b>2. Imputed Financing:</b>				
A.Civilian CSRS/FERS Retirement	\$ 205,147	\$ 0	\$ 223,285	\$ 0
B.Civilian Health	259,494	0	249,179	0
C.Civilian Life Insurance	948	0	929	0
D.Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgement Fund	0	0	0	0
G. Total Imputed Financing	<u>\$ 465,589</u>	<u>\$ 0</u>	<u>\$ 473,393</u>	<u>\$ 0</u>

### 3. Other Information:

The Errors and Omissions in Prior Year Accounting Reports line in the amount of \$1,952,397 thousand represents amounts calculated in the USD(C) inventory valuation model, which calculates a prior period adjustment to the cost of goods sold. See Note 1.M. for further discussion of the inventory revaluation model and significant accounting policies.

Prior Period Adjustments (PPAs) generated in the Navy Activity accounting systems in the amount of (\$124,306) thousand were reclassified to current year operations as directed by DFAS Arlington. DFAS Arlington determined the PPAs were immaterial at the Navy level or not of an infrequent nature therefore not justified PPAs. The DON requested the PPAs be posted to Navy Component to ensure integrity of the activities financial system data.

The Other Budgetary Financing Sources line on the Statement of Changes in Net Position includes \$470,621 thousand for amounts reclassified to Other Gains or Other Losses from Transfers-In and Transfers-Out. Transfers-In amounts are required to agree with Transfers-Out amounts received from seller-side data. Any amounts that could not be eliminated through the intragovernmental eliminations process were reclassified.



### Cumulative Results of Operations – Deferred:

Included in the NWCF's Net Position, Cumulative Results of Operations (CRO) are amounts that were approved by USD(C) as a deferral for recovery from, or return to, customers in later fiscal years' billing rates. As of 30 September 2002, the total NWCF amount of CRO-Deferred was (\$522,620) thousand. This amount primarily consists of system development costs incurred during FY 1992-FY 1998 totaling \$389,533 thousand by the Joint Logistics Service Center (JLSC). With the closure of JLSC, USD(C) directed in August 1998 that this JLSC system development cost be deferred from cost recovery. As instructed by the USD(C), DON distributed this amount among affected NWCF activities. The FY 2002 change in CRO Deferred amounts represents the write-off of liabilities from a Pilot Program at Navy Shipyards (NSY) Pearl Harbor. The following table displays all CRO – Deferred amounts through FY 2002:

(Amounts in thousands)	FY 2001 CRO Deferred Amounts	FY 2002 Change	FY 2002 CRO Deferred Amounts
JLSC	\$ (389,533)	\$ 0	\$ (389,533)
Depreciation	(4,569)	0	(4,569)
Explosive Incident	(4,829)	0	(4,829)
Material and Supplies – BRAC	(7,383)	0	(7,383)
Pilot Program – NSY Pearl Harbor	0	(116,306)	(116,306)
Total	\$ (406,314)	\$ (116,306)	\$ (522,620)

### NOTE 21.A. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30,  
(Amounts in thousands)

1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period
2. Available Borrowing and Contract Authority at the End of the Period

	2002	2001
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 7,340,100	\$ 4,316,473
2. Available Borrowing and Contract Authority at the End of the Period	5,394,300	4,857,081

#### 3. Other Information:

The Statement of Budgetary Resources is an image of the monthly Report on Budget Execution (SF 133). These reports should be produced using budgetary accounts. However, the NWCF uses proprietary accounts because its financial accounting systems were not designed to produce budgetary accounting data. The DON and DFAS continue with the implementation of new accounting systems designed to produce both proprietary and budgetary reports and use the USSGL. The Defense Industrial Financial Management System (DIFMS) has been fully implemented at all Research and Development (R&D) activities except two. One remaining activity is in the process of conversion and anticipates completion by April 2003. The other R&D activity has successfully implemented an Enterprise Resource Planning (ERP) pilot program. The Defense Working Capital Accounting System (DWAS) continues to be implemented at the Base Support activities. Once all systems have been implemented, the capability to produce the Statement of Budgetary Resources and SF 133 should be accomplished.

The SF 133 does not measure the NWCF's budget execution against budgetary resources. Budgetary resources are recorded in the accounting records and reported on the basis of customer orders received and contract authority invoked. On these reports, the spending authority from offsetting collections during the period of execution is based upon the approved President's Budget estimate of anticipated customer orders. However, at 30 September, the actual customer orders are reported on this line of the report since actual execution experience replaces the estimated values.

# Notes to the Principal Statements

For the SF 133, Supply Management's revenue is defined as gross sales less credit returns. For these financial statements, revenue is defined as gross sales. Credit returns are used to the inventory valuation model to calculate the cost value of the inventory and cost of goods sold. The difference in "meanings" causes significant variances in the reports.

On these budgetary reports, the net outlays (collections and disbursements) year to date are reported based on the amounts reported to U.S. Treasury from the Centralized Expenditures/Reimbursement Processing System. In FY 2002, the differences between the U.S. Treasury and the NWCF activity ledgers have been minimal, and the cause is related to timing or the type of transactions. The differences are recorded as undistributed disbursements and collections on the departmental reports.

While there may be no impact upon the U.S. Treasury balance, the above differences have created distortions in the Accounts Receivable and Accounts Payable from a budgetary reporting perspective on the SF 133. In addition, Accounts Receivable and Accounts Payable are handled differently on the monthly SF 133 as compared to the monthly Accounting Report AR (M) 1307 and financial statements. Also, problems with undistributed collections and disbursements have created abnormal balances for Accounts Receivable and Accounts Payable on the SF 133.

DFAS and DON worked with USD(C) to correct abnormal balances and a new crosswalk has been implemented using proprietary accounts in order to improve budgetary reporting on the SF 133 as well as the Statement of Budgetary Resources. Once new accounting systems are deployed at NWCF activities, the budgetary account structure will replace the proprietary account crosswalk for the Statement of Budgetary Resources.

Intra-agency transactions have not been eliminated on the Statement of Budgetary Resources because the statements are presented as combined. Eliminating entries for this statement are deferred by OMB 01-09 bulletin.

See the Combining Statement of Budgetary Resources in the Supporting Consolidating/Combining Statements section of this report.

## NOTE 21.B. DISCLOSURES RELATED TO PROBLEM DISBURSEMENTS, IN-TRANSIT DISBURSEMENTS AND SUSPENSE/BUDGET CLEARING ACCOUNTS

As of September 30,  
(Amounts in thousands)

	September 2000	September 2001	September 2002	(Decrease)/ Increase 2001 to 2002
<b>1. Total Problem Disbursements</b>				
A. Absolute Unmatched Disbursements	\$ 376,000	\$ 204,317	\$ 165,500	\$ (37,817)
B. Negative Unliquidated Obligations	0	0	0	0
<b>2. Total In-transit Disbursements, Net</b>	\$ 271,181	\$ 0	\$ 0	\$ 0

### 3. Other Information Related to Problem Disbursements and In-transit Disbursement :

Unmatched Disbursements (UMDs) occur when payments do not match to a corresponding accounts payable in the accounting system. Negative Unliquidated Obligations (NULO) occur when payments have a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. Absolute value is the sum of the positive values of debit and credit transactions without regards to their sign. In transits represents the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but yet posted in an accounting system.





The NWCF had a problem disbursement absolute amount and net amount of \$166,562 thousand and \$101,020 thousand, respectively. NWCF problem disbursements continue to decrease from the prior years largely due to improving system functionality and business processes. Additional emphasis on further reducing NWCF problem disbursements by next year has resulted in corresponding efforts to analyze and improve DFAS processes, and determine solutions to reduce current inflow and their root causes.

#### 4. Suspense/Budget Clearing Accounts, Net

Account	September 2000	September 2001	September 2002	(Decrease)/ Increase
F3875	\$ 0	\$ 0	\$ 0	\$ 0
F3880	2,118	0	0	0
F3882	0	0	0	0
F3885	0	0	0	0
F3886	0	0	0	0
<b>Total</b>	<u>\$ 2,118</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

#### 5. Other Information Related to Suspense/Budget Clearing Accounts:

The NWCF Suspense/Budget Clearing Accounts are being reported under Navy General Funds, Index 17.

### NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF FINANCING

Disclosures Related to the Statement of Financing:

The Statement of Financing is designed to provide information on the total resources used by an entity, to explain how those resources were used to finance orders for goods and services not yet delivered, to acquire assets and liabilities, and to fund the entity's net cost of operations. It is designed to report the differences and facilitate the reconciliation of accrual-based amounts used in the Statement of Net Cost and obligation-based amounts used in the Statement of Budgetary Resources. The computations and presentation of items in the Statement of Financing demonstrate that the budgetary and proprietary information in an entity's financial management systems are in agreement.

In FY 2002, the statement of financing was expanded to further articulate and detail the relationship between net obligations from budgetary accounting and net cost of operation from proprietary accounting. Some items that were reported last year as a single line were subdivided to reflect its components. Several new line items were added to separately identify and further explain the use of resources to finance net obligations or net cost of operations. This change notes key differences between the net obligations and net cost of operations.

Because DFAS NWCF accounting systems do not include budgetary accounts, the Statement of Budgetary Resources is produced using proprietary accounts. Additionally, current DFAS NWCF accounting systems may not contain the detail level information required to appropriately complete this Statement. Due to the system deficiencies, the Statement of Financing line, Costs Capitalized on the Balance Sheet, was adjusted downward by \$5,167,247 thousand. Therefore, the data presented on the Statement of Financing may not meet the intent of the DoD FMR.

# Notes to the Principal Statements

## NOTE 23. DISCLOSURES RELATED TO THE STATEMENT OF CUSTODIAL ACTIVITY

Disclosures Related to the Statement of Custodial Activity:  
Not Applicable.

## NOTE 24. OTHER DISCLOSURES

### NOTE 24.A. OTHER DISCLOSURES: LEASES

ENTITY AS LESSEE-Operating Leases

As of September 30,

(Amounts in thousands)

	2002				2001
	Asset Category 1	Asset Category 2	Asset Category 3	Total	Total
Future payments Due: <u>Fiscal Year</u>					
2003	\$ 1,100	\$ 0	\$ 0	\$ 1,100	\$ 0
2004	0	0	0	0	0
2005	0	0	0	0	0
2006	0	0	0	0	0
2007	0	0	0	0	0
After 5 Years					
Total Future Lease Payments Due	<u>\$ 1,100</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,100</u>	<u>\$ 0</u>

#### Definition of Line Items:

Lessee – A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.

Operating Lease – A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.

#### Description of lease arrangements:

Asset Category 1, Plant Equipment, in the amount of \$1,100 thousand represents MSC's lease of corporate data center. The lease period is for one year with three option years and a buyout clause of 18% of original purchase price of equipment of \$3,942 thousand. There are no contingent rental restrictions.

Operating leases were inadvertently not reported in FY 2001. The operating lease commenced 1 December 1999. Payment for each year was \$1,100 thousand.

ENTITY AS LESSOR-Capital Leases

None.

ENTITY AS LESSOR-Operating Leases

None.

### NOTE 24.B. OTHER DISCLOSURES

None.







Department of the Navy

# NAVY WORKING CAPITAL FUND SUPPORTING CONSOLIDATING/COMBINING STATEMENTS



Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATING BALANCE SHEET**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	Depot Maintenance, Shipyards	Depot Maintenance, Aviation	Depot Maintenance, Marine Corps	Ordnance
<b>ASSETS (Note 2)</b>				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	\$ 471,358	\$ (57,641)	\$ (1,287)	\$ 194,237
Investments (Note 4)	0	0	0	0
Accounts Receivable (Note 5)	10,572	111,362	8,744	963
Other Assets (Note 6)	13	0	21	0
Total Intragovernmental Assets	481,943	53,721	7,478	195,200
Cash and Other Monetary Assets (Note 7)	0	0	0	0
Accounts Receivable (Note 5)	572	1,497	991	199
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	251,241	726,392	42,818	864
General Property, Plant and Equipment (Note 10)	631,683	362,291	52,436	0
Other Assets (Note 6)	96,422	2,506	0	739
<b>TOTAL ASSETS</b>	<u>\$ 1,461,861</u>	<u>\$ 1,146,407</u>	<u>\$ 103,723</u>	<u>\$ 197,002</u>
<b>LIABILITIES (Note 11)</b>				
Intragovernmental:				
Accounts Payable (Note 12)	\$ 13,873	\$ 231,447	\$ 0	\$ 6,707
Debt (Note 13)	0	0	0	0
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	71,595	4,146	550	0
Total Intragovernmental Liabilities	85,468	235,593	550	6,707
Accounts Payable (Note 12)	57,983	31,304	7,946	8,635
Military Retirement Benefits and Other Employment- Related Actuarial Liabilities (Note 17)	0	0	22,109	0
Environmental Liabilities (Note 14)	0	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 and Note 16)	370,442	531,602	6,559	13,644
<b>TOTAL LIABILITIES</b>	<u>\$ 513,893</u>	<u>\$ 798,499</u>	<u>\$ 37,164</u>	<u>\$ 28,986</u>
<b>NET POSITION</b>				
Unexpended Appropriations (Note 18)	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	947,968	347,908	66,559	168,016
<b>TOTAL NET POSITION</b>	<u>\$ 947,968</u>	<u>\$ 347,908</u>	<u>\$ 66,559</u>	<u>\$ 168,016</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 1,461,861</u>	<u>\$ 1,146,407</u>	<u>\$ 103,723</u>	<u>\$ 197,002</u>

The accompanying notes are an integral part of these financial statements.

# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATING BALANCE SHEET**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	Transportation	Base Support	Information Services	Research & Development
<b>ASSETS (Note 2)</b>				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	\$ 266,630	\$ 165,463	\$ 0	\$ 841,134
Investments (Note 4)	0	0	0	0
Accounts Receivable (Note 5)	95,632	181,654	0	115,320
Other Assets (Note 6)	0	0	0	0
Total Intragovernmental Assets	362,262	347,117	0	956,454
Cash and Other Monetary Assets (Note 7)	0	0	0	0
Accounts Receivable (Note 5)	13	28,664	0	35,349
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	25,606	47,238	0	309,393
General Property, Plant and Equipment (Note 10)	29,803	645,934	0	2,008,599
Other Assets (Note 6)	741,193	4,316	0	11,520
<b>TOTAL ASSETS</b>	<b>\$ 1,158,877</b>	<b>\$ 1,073,269</b>	<b>\$ 0</b>	<b>\$ 3,321,315</b>
<b>LIABILITIES (Note 11)</b>				
Intragovernmental:				
Accounts Payable (Note 12)	\$ 39,310	\$ 12,774	\$ 0	\$ 89,227
Debt (Note 13)	750,725	0	0	0
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	456	2,466	0	99,024
Total Intragovernmental Liabilities	790,491	15,240	0	188,251
Accounts Payable (Note 12)	413,769	88,510	0	771,966
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	0	0	0
Environmental Liabilities (Note 14)	0	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 and Note 16)	49,710	292,429	0	1,849,023
<b>TOTAL LIABILITIES</b>	<b>\$ 1,253,970</b>	<b>\$ 396,179</b>	<b>\$ 0</b>	<b>\$ 2,809,240</b>
<b>NET POSITION</b>				
Unexpended Appropriations (Note 18)	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	(95,093)	677,090	0	512,075
<b>TOTAL NET POSITION</b>	<b>\$ (95,093)</b>	<b>\$ 677,090</b>	<b>\$ 0</b>	<b>\$ 512,075</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 1,158,877</b>	<b>\$ 1,073,269</b>	<b>\$ 0</b>	<b>\$ 3,321,315</b>

The accompanying notes are an integral part of these financial statements.



Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATING BALANCE SHEET**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	Supply Management	Component Level	Combined Total	Eliminations
<b>ASSETS (Note 2)</b>				
Intragovernmental:				
Fund Balance with Treasury (Note 3)	\$ 362,234	\$ (532,448)	\$ 1,709,680	\$ 0
Investments (Note 4)	0	0	0	0
Accounts Receivable (Note 5)	49,701	(48,708)	525,240	0
Other Assets (Note 6)	0	232	266	0
Total Intragovernmental Assets	411,935	(580,924)	2,235,186	0
Cash and Other Monetary Assets (Note 7)	0	0	0	0
Accounts Receivable (Note 5)	8,369	5,247	80,901	0
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	16,792,516	(540,204)	17,655,864	0
General Property, Plant and Equipment (Note 10)	460,091	0	4,190,837	0
Other Assets (Note 6)	283,958	0	1,140,654	0
<b>TOTAL ASSETS</b>	<u>\$ 17,956,869</u>	<u>\$ (1,115,881)</u>	<u>\$ 25,303,442</u>	<u>\$ 0</u>
<b>LIABILITIES (Note 11)</b>				
Intragovernmental:				
Accounts Payable (Note 12)	\$ 408,530	\$ (367,096)	\$ 434,772	\$ 0
Debt (Note 13)	0	0	750,725	0
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	1,191	(1,620)	177,808	0
Total Intragovernmental Liabilities	409,721	(368,716)	1,363,305	0
Accounts Payable (Note 12)	150,344	269,214	1,799,671	0
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	0	1,303,817	1,325,926	0
Environmental Liabilities (Note 14)	0	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 and Note 16)	786,667	(1,092,242)	2,807,834	0
<b>TOTAL LIABILITIES</b>	<u>\$ 1,346,732</u>	<u>\$ 112,073</u>	<u>\$ 7,296,736</u>	<u>\$ 0</u>
<b>NET POSITION</b>				
Unexpended Appropriations (Note 18)	\$ 0	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	16,610,137	(1,227,954)	18,006,706	0
<b>TOTAL NET POSITION</b>	<u>\$ 16,610,137</u>	<u>\$ (1,227,954)</u>	<u>\$ 18,006,706</u>	<u>\$ 0</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 17,956,869</u>	<u>\$ (1,115,881)</u>	<u>\$ 25,303,442</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements.



# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATING BALANCE SHEET**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	2002	Restated 2001	2001
<b>ASSETS (Note 2)</b>			
Intragovernmental:			
Fund Balance with Treasury (Note 3)	\$ 1,709,680	\$ 1,204,403	\$ 1,204,403
Investments (Note 4)	0	0	0
Accounts Receivable (Note 5)	525,240	894,349	894,349
Other Assets (Note 6)	266	29,500	29,500
Total Intragovernmental Assets	<u>2,235,186</u>	<u>2,128,252</u>	<u>2,128,252</u>
Cash and Other Monetary Assets (Note 7)	0	0	0
Accounts Receivable (Note 5)	80,901	109,737	109,737
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	17,655,864	17,345,710	17,885,914
General Property, Plant and Equipment (Note 10)	4,190,837	4,151,238	4,151,238
Other Assets (Note 6)	1,140,654	1,373,420	1,373,420
<b>TOTAL ASSETS</b>	<u>\$ 25,303,442</u>	<u>\$ 25,108,357</u>	<u>\$ 25,648,561</u>
<b>LIABILITIES (Note 11)</b>			
Intragovernmental:			
Accounts Payable (Note 12)	\$ 434,772	\$ 462,946	\$ 462,946
Debt (Note 13)	750,725	888,306	888,306
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	177,808	119,102	119,102
Total Intragovernmental Liabilities	<u>1,363,305</u>	<u>1,470,354</u>	<u>1,470,354</u>
Accounts Payable (Note 12)	1,799,671	1,041,391	1,041,391
Military Retirement Benefits and Other Employment-Related Actuarial Liabilities (Note 17)	1,325,926	1,372,651	1,372,651
Environmental Liabilities (Note 14)	0	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	2,807,834	4,045,593	4,045,593
<b>TOTAL LIABILITIES</b>	<u>\$ 7,296,736</u>	<u>\$ 7,929,989</u>	<u>\$ 7,929,989</u>
<b>NET POSITION</b>			
Unexpended Appropriations (Note 18)	\$ 0	\$ 0	\$ 0
Cumulative Results of Operations	18,006,706	17,178,368	17,718,572
<b>TOTAL NET POSITION</b>	<u>\$ 18,006,706</u>	<u>\$ 17,178,368</u>	<u>\$ 17,718,572</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 25,303,442</u>	<u>\$ 25,108,357</u>	<u>\$ 25,648,561</u>

The accompanying notes are an integral part of these financial statements.



Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATING STATEMENT OF NET COST**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	2002 Total	Eliminations	2002	Restated 2001	2001
<b>Program Costs</b>					
<b>Base Support</b>					
Intragovernmental Gross Costs	\$ 1,634,739	\$ 0	\$ 1,634,739	\$ 216,127	\$ 216,127
(Less: Intragovernmental Earned Revenue)	(1,627,848)	0	(1,627,848)	(1,405,416)	(1,405,416)
Intragovernmental Net Costs	6,891	0	6,891	(1,189,289)	(1,189,289)
Gross Costs With the Public	19,753	0	19,753	1,447,582	1,447,582
(Less: Earned Revenue From the Public)	(64,086)	0	(64,086)	(77,201)	(77,201)
Net Costs With the Public	(44,333)	0	(44,333)	1,370,381	1,370,381
Net Program Cost	\$ (37,442)	\$ 0	\$ (37,442)	\$ 181,092	\$ 181,092
<b>Component Level</b>					
Intragovernmental Gross Costs	\$ (12,661,671)	\$ 0	\$ (12,661,671)	\$ 0	\$ 0
(Less: Intragovernmental Earned Revenue)	2,152,034	0	2,152,034	0	0
Intragovernmental Net Costs	(10,509,637)	0	(10,509,637)	0	0
Gross Costs With the Public	12,335,314	0	12,335,314	2,641,644	149,042
(Less: Earned Revenue From the Public)	1,272	0	1,272	0	0
Net Costs With the Public	12,336,586	0	12,336,586	2,641,644	149,042
Net Program Cost	\$ 1,826,949	\$ 0	\$ 1,826,949	\$ 2,641,644	\$ 149,042
<b>Depot Maintenance, Aviation</b>					
Intragovernmental Gross Costs	\$ 2,146,371	\$ 0	\$ 2,146,371	\$ 623,507	\$ 623,507
(Less: Intragovernmental Earned Revenue)	(1,973,128)	0	(1,973,128)	(879,144)	(879,144)
Intragovernmental Net Costs	173,243	0	173,243	(255,637)	(255,637)
Gross Costs With the Public	43,155	0	43,155	1,138,762	1,138,762
(Less: Earned Revenue From the Public)	(50,214)	0	(50,214)	(31,372)	(31,372)
Net Costs With the Public	(7,059)	0	(7,059)	1,107,390	1,107,390
Net Program Cost	\$ 166,184	\$ 0	\$ 166,184	\$ 851,753	\$ 851,753
<b>Depot Maintenance, Marine Corps</b>					
Intragovernmental Gross Costs	\$ 208,091	\$ 0	\$ 208,091	\$ 212,893	\$ 212,893
(Less: Intragovernmental Earned Revenue)	(207,825)	0	(207,825)	(191,719)	(191,719)
Intragovernmental Net Costs	266	0	266	21,174	21,174
Gross Costs With the Public	3,620	0	3,620	(76,501)	(76,501)
(Less: Earned Revenue From the Public)	(4,327)	0	(4,327)	(3,941)	(3,941)
Net Costs With the Public	(707)	0	(707)	(80,442)	(80,442)
Net Program Cost	\$ (441)	\$ 0	\$ (441)	\$ (59,268)	\$ (59,268)

The accompanying notes are an integral part of these financial statements. See notes 1 and 19.



# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund

## CONSOLIDATING STATEMENT OF NET COST

As of September 30, 2002 and 2001  
(\$ in thousands)

	2002 Total	Eliminations	2002	Restated 2001	2001
<b>Depot Maintenance, Shipyards</b>					
Intragovernmental Gross Costs	\$ 2,726,318	\$ 0	\$ 2,726,318	\$ 487,062	\$ 487,062
(Less: Intragovernmental Earned Revenue)	(2,534,914)	0	(2,534,914)	(2,001,472)	(2,001,472)
Intragovernmental Net Costs	191,404	0	191,404	(1,514,410)	(1,514,410)
Gross Costs With the Public	107,251	0	107,251	1,576,165	1,576,165
(Less: Earned Revenue From the Public)	(16,895)	0	(16,895)	(13,252)	(13,252)
Net Costs With the Public	90,356	0	90,356	1,562,913	1,562,913
Net Program Cost	\$ 281,760	\$ 0	\$ 281,760	\$ 48,503	\$ 48,503
<b>Information Services</b>					
Intragovernmental Gross Costs	\$ 0	\$ 0	\$ 0	\$ 38,839	\$ 38,839
(Less: Intragovernmental Earned Revenue)	0	0	0	(28,293)	(28,293)
Intragovernmental Net Costs	0	0	0	10,546	10,546
Gross Costs With the Public	0	0	0	36,112	36,112
(Less: Earned Revenue From the Public)	0	0	0	(26,582)	(26,582)
Net Costs With the Public	0	0	0	9,530	9,530
Net Program Cost	\$ 0	\$ 0	\$ 0	\$ 20,076	\$ 20,076
<b>Ordnance</b>					
Intragovernmental Gross Costs	\$ (56,748)	\$ 0	\$ (56,748)	\$ 364	\$ 364
(Less: Intragovernmental Earned Revenue)	0	0	0	0	0
Intragovernmental Net Costs	(56,748)	0	(56,748)	364	364
Gross Costs With the Public	0	0	0	2,779	2,779
(Less: Earned Revenue From the Public)	(604)	0	(604)	(2,393)	(2,393)
Net Costs With the Public	(604)	0	(604)	386	386
Net Program Cost	\$ (57,352)	\$ 0	\$ (57,352)	\$ 750	\$ 750
<b>Transportation</b>					
Intragovernmental Gross Costs	\$ 1,383,045	\$ 0	\$ 1,383,045	\$ 588,593	\$ 588,593
(Less: Intragovernmental Earned Revenue)	(1,516,715)	0	(1,516,715)	(1,337,799)	(1,337,799)
Intragovernmental Net Costs	(133,670)	0	(133,670)	(749,206)	(749,206)
Gross Costs With the Public	4,103	0	4,103	1,107,829	1,107,829
(Less: Earned Revenue From the Public)	(1,950)	0	(1,950)	0	0
Net Costs With the Public	2,153	0	2,153	1,107,829	1,107,829
Net Program Cost	\$ (131,517)	\$ 0	\$ (131,517)	\$ 358,623	\$ 358,623

The accompanying notes are an integral part of these financial statements. See notes 1 and 19.



Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATING STATEMENT OF NET COST**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	2002 Total	Eliminations	2002	Restated 2001	2001
<b>Research and Development</b>					
Intragovernmental Gross Costs	\$ 9,030,982	\$ 0	\$ 9,030,982	\$ 1,289,772	\$ 1,289,772
(Less: Intragovernmental Earned Revenue)	(9,119,274)	0	(9,119,274)	(7,527,316)	(7,527,316)
Intragovernmental Net Costs	(88,292)	0	(88,292)	(6,237,544)	(6,237,544)
Gross Costs With the Public	127,598	0	127,598	7,903,542	7,903,542
(Less: Earned Revenue From the Public)	(351,023)	0	(351,023)	(203,908)	(203,908)
Net Costs With the Public	(223,425)	0	(223,425)	7,699,634	7,699,634
Net Program Cost	\$ (311,717)	\$ 0	\$ (311,717)	\$ 1,462,090	\$ 1,462,090
<b>Supply Management</b>					
Intragovernmental Gross Costs	\$ 971,197	\$ 0	\$ 971,197	\$ 2,731,936	\$ 2,731,936
(Less: Intragovernmental Earned Revenue)	(6,088,590)	0	(6,088,590)	(4,957,499)	(4,957,499)
Intragovernmental Net Costs	(5,117,393)	0	(5,117,393)	(2,225,563)	(2,225,563)
Gross Costs With the Public	6,196,608	0	6,196,608	1,150,883	1,150,883
(Less: Earned Revenue From the Public)	(374,865)	0	(374,865)	(289,735)	(289,735)
Net Costs With the Public	5,821,743	0	5,821,743	861,148	861,148
Net Program Cost	\$ 704,350	\$ 0	\$ 704,350	\$ (1,364,415)	\$ (1,364,415)
<b>Total Program Costs</b>					
Intragovernmental Gross Costs	\$ 5,382,324	\$ 0	\$ 5,382,324	\$ 6,189,093	\$ 6,189,093
(Less: Intragovernmental Earned Revenue)	(20,916,260)	0	(20,916,260)	(18,328,658)	(18,328,658)
Intragovernmental Net Costs	(15,533,936)	0	(15,533,936)	(12,139,565)	(12,139,565)
Gross Costs With the Public	18,837,402	0	18,837,402	16,928,798	14,436,194
(Less: Earned Revenue From the Public)	(862,692)	0	(862,692)	(648,383)	(648,383)
Net Costs With the Public	17,974,710	0	17,974,710	16,280,415	13,787,811
Net Program Cost	\$ 2,440,774	\$ 0	\$ 2,440,774	\$ 4,140,850	\$ 1,648,246
<b>Costs Not Assigned to Programs</b>					
	0	0	0	0	0
<b>(Less: Earned Revenue Not Attributable to Programs)</b>					
	0	0	0	0	0
<b>Net Costs of Operations</b>	<u>\$ 2,440,774</u>	<u>\$ 0</u>	<u>\$ 2,440,774</u>	<u>\$ 4,140,850</u>	<u>\$ 1,648,246</u>

The accompanying notes are an integral part of these financial statements. See notes 1 and 19.





# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund

## CONSOLIDATING STATEMENT OF CHANGES IN THE NET POSITION

As of September 30, 2002 and 2001

(\$ in thousands)

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps	Ordnance
<b>CUMULATIVE RESULTS OF OPERATION</b>				
<b>Beginning Balances</b>	\$ 1,230,010	\$ 454,372	\$ 60,306	\$ 91,207
<b>Prior period adjustments (+/-)</b>	(127,861)	0	(1,051)	253
<b>Beginning Balances, as adjusted</b>	1,102,149	454,372	59,255	91,460
<b>Budgetary Financing Sources:</b>				
Appropriations Received	0	0	0	0
Appropriations transferred in/out (+/-)	0	0	0	0
Other adjustments (recissions, etc) (+/-)	0	0	0	0
Appropriations used	0	0	0	0
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	16,160	2,642	0	19,048
<b>Other Financing Sources:</b>				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Imputed financing from costs absorbed by others	111,419	57,078	6,863	156
Other (+/-)	0	0	0	0
<b>Total Financing Sources</b>	127,579	59,720	6,863	19,204
<b>Net Cost of Operations (+/-)</b>	281,760	166,184	(441)	(57,352)
<b>Ending Balances</b>	<u>\$ 947,968</u>	<u>\$ 347,908</u>	<u>\$ 66,559</u>	<u>\$ 168,016</u>



Department of Defense  
Navy Working Capital Fund

**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**

As of September 30, 2002 and 2001

(\$ in thousands)

	Transportation	Base Support	Information Services	Research & Development
<b>CUMULATIVE RESULTS OF OPERATION</b>				
<b>Beginning Balances</b>	\$ (236,719)	\$ 588,305	\$ (7,266)	\$ 89,678
<b>Prior period adjustments (+/-)</b>	2,695	3,724	(2,081)	13
<b>Beginning Balances, as adjusted</b>	(234,024)	592,029	(9,347)	89,691
<b>Budgetary Financing Sources:</b>				
Appropriations Received	0	0	0	0
Appropriations transferred in/out (+/-)	0	0	0	0
Other adjustments (recissions, etc) (+/-)	0	0	0	0
Appropriations used	0	0	0	0
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	1,823	10,871	0	(108,689)
<b>Other Financing Sources:</b>				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	9,347	(9,805)
Imputed financing from costs absorbed by others	5,591	36,748	0	229,161
Other (+/-)	0	0	0	0
<b>Total Financing Sources</b>	7,414	47,619	9,347	110,667
<b>Net Cost of Operations (+/-)</b>	(131,517)	(37,442)	0	(311,717)
<b>Ending Balances</b>	\$ (95,093)	\$ 677,090	\$ 0	\$ 512,075



The accompanying notes are an integral part of these financial statements. See notes 1 and 20.

# Supporting Consolidating/Combining Statements

Department of Defense

Navy Working Capital Fund

## CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2002 and 2001

(\$ in thousands)

	Supply Management	Component Level	Combined Total	Eliminations
<b>CUMULATIVE RESULTS OF OPERATION</b>				
<b>Beginning Balances</b>	\$ 15,941,285	\$ (492,606)	\$ 17,718,572	\$ 0
<b>Prior period adjustments (+/-)</b>	868,137	1,208,568	1,952,397	0
<b>Beginning Balances, as adjusted</b>	16,809,422	715,962	19,670,969	0
<b>Budgetary Financing Sources:</b>				
Appropriations Received	0	0	0	0
Appropriations transferred in/out (+/-)	0	0	0	0
Other adjustments (recissions, etc) (+/-)	0	0	0	0
Appropriations used	0	0	0	0
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	487,172	(116,967)	312,060	0
<b>Other Financing Sources:</b>				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	(680)	0	(1,138)	0
Imputed financing from costs absorbed by others	18,573	0	465,589	0
Other (+/-)	0	0	0	0
<b>Total Financing Sources</b>	505,065	(116,967)	776,511	0
<b>Net Cost of Operations (+/-)</b>	704,350	1,826,949	2,440,774	0
<b>Ending Balances</b>	<u>\$ 16,610,137</u>	<u>\$ (1,227,954)</u>	<u>\$ 18,006,706</u>	<u>\$ 0</u>



Department of Defense  
Navy Working Capital Fund  
**CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	2002	Restated 2001	2001
<b>CUMULATIVE RESULTS OF OPERATION</b>			
<b>Beginning Balances</b>	\$ 17,718,572	\$ 19,090,738	\$ 19,090,738
<b>Prior period adjustments (+/-)</b>	1,952,397	790,769	(1,161,631)
<b>Beginning Balances, as adjusted</b>	19,670,969	19,881,507	17,929,107
<b>Budgetary Financing Sources:</b>			
Appropriations Received	0	0	0
Appropriations transferred in/out (+/-)	0	0	0
Other adjustments (recissions, etc) (+/-)	0	0	0
Appropriations used	0	145,530	145,530
Nonexchange revenue	0	11,352	11,352
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	312,060	771,249	771,249
<b>Other Financing Sources:</b>			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	(1,138)	36,187	36,187
Imputed financing from costs absorbed by others	465,589	473,393	473,393
Other (+/-)	0	0	0
<b>Total Financing Sources</b>	776,511	1,437,711	1,437,711
<b>Net Cost of Operations (+/-)</b>	2,440,774	4,140,850	1,648,246
<b>Ending Balances</b>	<u>\$ 18,006,706</u>	<u>\$ 17,178,368</u>	<u>\$ 17,718,572</u>

The accompanying notes are an integral part of these financial statements. See notes 1 and 20.



# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
As of September 30, 2002 and 2001  
(\$ in thousands)

## BUDGETARY FINANCING ACCOUNTS

### BUDGETARY RESOURCES

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps
Budget Authority:			
Appropriations Received	\$ 0	\$ 0	\$ 0
Borrowing Authority	0	0	0
Contract Authority	0	0	0
Net transfers (+/-)	0	0	0
Other	0	0	0
Unobligated Balance:			
Beginning of period	430,847	352,768	80,698
Net transfers, actual (+/-)	0	0	0
Anticipated Transfers Balances	0	0	0
Spending Authority from Offsetting Collections:			
Earned			
Collected	2,596,802	2,297,171	214,367
Receivable from Federal sources	(234,175)	(221)	(4,113)
Change in unfilled customer orders			
Advances received	35,810	1,810	(1,074)
Without advance from Federal sources	247,481	167,106	(24,340)
Anticipated for the rest of year, without advances	0	0	0
Transfers from trust funds	0	0	0
Subtotal	2,645,918	2,465,866	184,840
Recoveries of prior year obligations	0	0	0
Temporarily not available pursuant to Public Law	0	0	0
Permanently not available	(13,536)	(56,724)	0
<b>Total Budgetary Resources</b>	<b>\$ 3,063,229</b>	<b>\$ 2,761,910</b>	<b>\$ 265,538</b>



Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred:			
Direct	\$ 0	\$ 0	\$ 0
Reimbursable	2,641,766	2,121,523	202,349
Subtotal	<u>2,641,766</u>	<u>2,121,523</u>	<u>202,349</u>
Unobligated balance:			
Apportioned	421,463	640,387	63,189
Exempt from apportionment	0	0	0
Other available	0	0	0
Unobligated Balances Not Available	0	0	0
<b>Total, Status of Budgetary Resources</b>	<u>\$ 3,063,229</u>	<u>\$ 2,761,910</u>	<u>\$ 265,538</u>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>			
Obligated Balance, Net-beginning of period	\$ 172,802	\$ 169,909	\$ (45,996)
Obligated Balance transferred, net (+/-)	0	0	0
Obligated Balance, net-end of period:			
Accounts Receivable	(9,316)	(106,899)	(9,736)
Unfilled customer order from Federal sources	(897,781)	(822,869)	(48,809)
Undelivered Orders	591,155	213,310	28,066
Accounts Payable	595,835	877,283	14,059
Outlays:			
Disbursements	2,521,369	1,963,723	201,225
Collections	(2,632,613)	(2,298,980)	(213,293)
Subtotal	<u>(111,244)</u>	<u>(335,257)</u>	<u>(12,068)</u>
Less: Offsetting receipts	0	0	0
<b>Net Outlays</b>	<u>\$ (111,244)</u>	<u>\$ (335,257)</u>	<u>\$ (12,068)</u>

The accompanying notes are an integral part of these financial statements. See note 1 and 21.



# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
As of September 30, 2002 and 2001  
(\$ in thousands)

## BUDGETARY FINANCING ACCOUNTS

<b>BUDGETARY RESOURCES</b>	<b>Ordnance</b>	<b>Transportation</b>	<b>Base Support</b>	<b>Information Services</b>
Budget Authority:				
Appropriations Received	\$ 0	\$ 0	\$ 0	\$ 0
Borrowing Authority	0	0	0	0
Contract Authority	0	0	0	0
Net transfers (+/-)	0	0	0	0
Other	0	0	0	0
Unobligated Balance:				
Beginning of period	188,219	(27,741)	149,960	59,540
Net transfers, actual (+/-)	0	0	0	(59,540)
Anticipated Transfers Balances	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	1,531	1,510,911	1,790,113	0
Receivable from Federal sources	1,764	6,855	(42,673)	0
Change in unfilled customer orders				
Advances received	(5)	0	2,391	0
Without advance from Federal sources	242,840	2,143	(50,057)	0
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	246,130	151,909	1,699,774	0
Recoveries of prior year obligations	0	0	0	0
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(1,066)	(140,517)	(18,334)	0
<b>Total Budgetary Resources</b>	<b>\$ 433,283</b>	<b>\$ 1,351,651</b>	<b>\$ 1,831,400</b>	<b>\$ 0</b>



Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
As of September 30, 2002 and 2001  
(\$ in thousands)

**STATUS OF BUDGETARY RESOURCES**

	<u>Ordance</u>	<u>Transportation</u>	<u>Base Support</u>	<u>Information Services</u>
Obligations Incurred:				
Direct	\$ 0	\$ 0	\$ 0	\$ 0
Reimbursable	167,656	1,175,208	1,624,280	0
Subtotal	167,656	1,175,208	1,624,280	0
Unobligated balance:				
Apportioned	265,627	176,443	207,120	0
Exempt from apportionment	0	0	0	0
Other available	0	0	0	0
Unobligated Balances Not Available	0	0	0	0
<b>Total, Status of Budgetary Resources</b>	<u>\$ 433,283</u>	<u>\$ 1,351,651</u>	<u>\$ 1,831,400</u>	<u>\$ 0</u>

**RELATIONSHIP OF OBLIGATIONS TO OUTLAYS**

Obligated Balance, Net-beginning of period	\$ 42,828	\$ 415,244	\$ 118,473	\$ 22,610
Obligated Balance transferred, net (+/-)	0	0	0	(22,610)
Obligated Balance, net-end of period:				
Accounts Receivable	(962)	(95,632)	(159,273)	0
Unfilled customer order from Federal sources	(17,580)	(35,133)	(261,774)	0
Undelivered Orders	11,602	29,994	239,282	0
Accounts Payable	(29,170)	342,046	286,873	0
Outlays:				
Disbursements	1,989	1,340,179	1,730,374	0
Collections	(1,525)	(1,510,911)	(1,792,504)	0
Subtotal	464	(170,732)	(62,130)	0
Less: Offsetting receipts	0	0	0	0
<b>Net Outlays</b>	<u>\$ 464</u>	<u>\$ (170,732)</u>	<u>\$ (62,130)</u>	<u>\$ 0</u>



The accompanying notes are an integral part of these financial statements. See note 1 and 21.



# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
As of September 30, 2002 and 2001  
(\$ in thousands)

## BUDGETARY FINANCING ACCOUNTS

<b>BUDGETARY RESOURCES</b>	<b>Research &amp; Development</b>	<b>Supply Management</b>	<b>Component Level</b>	<b>2002 Combined Total</b>
Budget Authority:				
Appropriations Received	\$ 0	\$ 0	\$ 0	\$ 0
Borrowing Authority	0	0	0	0
Contract Authority	0	818,950	0	818,950
Net transfers (+/-)	0	0	0	0
Other	0	0	0	0
Unobligated Balance:				
Beginning of period	1,313,323	126,966	432,077	3,106,657
Net transfers, actual (+/-)	18,776	40,764	0	0
Anticipated Transfers Balances	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned				
Collected	9,461,818	6,355,648	13,903	24,242,264
Receivable from Federal sources	(194,997)	2,925	(13,903)	(478,538)
Change in unfilled customer orders				
Advances received	19,874	(133)	0	58,673
Without advance from Federal sources	280,372	(92,138)	0	773,407
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	9,567,067	6,266,302	0	24,595,806
Recoveries of prior year obligations	0	0	0	0
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(154,195)	(32,860)	0	(417,232)
<b>Total Budgetary Resources</b>	<b>\$ 10,744,971</b>	<b>\$ 7,220,122</b>	<b>\$ 432,077</b>	<b>\$ 28,104,181</b>



Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
As of September 30, 2002 and 2001  
(\$ in thousands)

<b>STATUS OF BUDGETARY RESOURCES</b>	<b>Research &amp; Development</b>	<b>Supply Management</b>	<b>Component Level</b>	<b>2002 Combined Total</b>
Obligations Incurred:				
Direct	\$ 0	\$ 0	\$ 0	\$ 0
Reimbursable	9,545,269	6,508,908	0	23,986,959
Subtotal	9,545,269	6,508,908	0	23,986,959
Unobligated balance:				
Apportioned	1,199,702	711,213	432,077	4,117,221
Exempt from apportionment	0	0	0	0
Other available	0	1	0	1
Unobligated Balances Not Available	0	0	0	0
<b>Total, Status of Budgetary Resources</b>	<b>\$ 10,744,971</b>	<b>\$ 7,220,122</b>	<b>\$ 432,077</b>	<b>\$ 28,104,181</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>				
Obligated Balance, Net-beginning of period	\$ (354,815)	\$ 3,088,289	\$ (1,208,239)	\$ 2,421,105
Obligated Balance transferred, net (+/-)	(15,250)	37,860	0	0
Obligated Balance, net-end of period:				
Accounts Receivable	(131,730)	(267,811)	8,033	(773,326)
Unfilled customer order from Federal sources	(3,845,967)	(862,041)	0	(6,791,954)
Undelivered Orders	1,959,303	4,255,245	0	7,327,957
Accounts Payable	2,071,322	218,174	(1,153,340)	3,223,082
Outlays:				
Disbursements	9,036,900	6,380,706	(49,029)	23,127,436
Collections	(9,481,691)	(6,355,516)	(13,904)	(24,300,937)
Subtotal	(444,791)	25,190	(62,933)	(1,173,501)
Less: Offsetting receipts	0	0	0	0
<b>Net Outlays</b>	<b>\$ (444,791)</b>	<b>\$ 25,190</b>	<b>\$ (62,933)</b>	<b>\$ (1,173,501)</b>



The accompanying notes are an integral part of these financial statements. See note 1 and 21.

# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund

## COMBINING STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2002 and 2001

(\$ in thousands)

### BUDGETARY FINANCING ACCOUNTS

#### BUDGETARY RESOURCES

	Restated 2001 Combined Total	2001 Combined Total
Budget Authority:		
Appropriations Received	\$ 145,530	\$ 145,530
Borrowing Authority	0	0
Contract Authority	612,962	612,962
Net transfers (+/-)	0	0
Other	0	0
Unobligated Balance:		
Beginning of period	2,089,156	2,089,156
Net transfers, actual (+/-)	43,700	43,700
Anticipated Transfers Balances	0	0
Spending Authority from Offsetting Collections:		
Earned		
Collected	21,216,090	21,216,090
Receivable from Federal sources	177,613	177,613
Change in unfilled customer orders		
Advances received	(576,035)	(576,035)
Without advance from Federal sources	790,654	790,653
Anticipated for the rest of year, without advances	0	0
Transfers from trust funds	0	0
Subtotal	21,608,321	21,608,321
Recoveries of prior year obligations	0	0
Temporarily not available pursuant to Public Law	0	0
Permanently not available	(80,135)	(80,135)
<b>Total Budgetary Resources</b>	<b>\$ 24,419,534</b>	<b>\$ 24,419,534</b>



Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF BUDGETARY RESOURCES**  
As of September 30, 2002 and 2001  
(\$ in thousands)

<b>STATUS OF BUDGETARY RESOURCES</b>	<b>Restated 2001 Combined Total</b>	<b>2001 Combined Total</b>
Obligations Incurred:		
Direct	\$ 0	\$ 0
Reimbursable	21,312,877	21,312,877
Subtotal	21,312,877	21,312,877
Unobligated balance:		
Apportioned	3,044,096	3,044,096
Exempt from apportionment	62,562	62,562
Other available	(1)	(1)
Unobligated Balances Not Available	0	0
<b>Total, Status of Budgetary Resources</b>	<b>\$ 24,419,534</b>	<b>\$ 24,419,534</b>
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>		
Obligated Balance, Net-beginning of period	\$ 3,630,862	\$ 3,630,862
Obligated Balance transferred, net (+/-)	0	0
Obligated Balance, net-end of period:		
Accounts Receivable	1,251,862	1,251,862
Unfilled customer order from Federal sources	6,018,549	6,018,549
Undelivered Orders	(4,611,122)	(4,611,122)
Accounts Payable	(5,080,394)	(5,080,394)
Outlays:		
Disbursements	21,554,367	21,554,367
Collections	(20,640,054)	(20,640,054)
Subtotal	914,313	914,313
Less: Offsetting receipts	0	0
<b>Net Outlays</b>	<b>\$ 914,313</b>	<b>\$ 914,313</b>



The accompanying notes are an integral part of these financial statements. See note 1 and 21.

# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF FINANCING**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	Depot Maintenance Shipyards	Depot Maintenance Aviation	Depot Maintenance Marine Corps
<b>Resources Used to Finance Activities:</b>			
Budgetary Resources Obligated			
Obligations Incurred	\$ 2,641,766	\$ 2,121,523	\$ 202,349
Less: Spending Authority from offsetting collections and recoveries (-)	(2,645,918)	(2,465,866)	(184,840)
Obligations net of offsetting collections and recoveries	(4,152)	(344,343)	17,509
Less: Offsetting receipts (-)	0	0	0
Net obligations	(4,152)	(344,343)	17,509
Other Resources			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	111,419	57,078	6,863
Other (+/-)	0	0	0
Net other resources used to finance activities	111,419	57,078	6,863
<b>Total resources used to finance activities</b>	<b>\$ 107,267</b>	<b>\$ (287,265)</b>	<b>\$ 24,372</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>			
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided			
Undelivered orders (-)	\$ (97,940)	\$ 19,771	\$ (8,959)
Unfilled Customer Orders	283,291	168,916	(25,416)
Resources that fund expenses recognized in prior periods	0	0	(204)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0
Resources that finance the acquisition of assets	(50,218)	232,801	5,662
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations			
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0	0
Other (+/-)	0	0	0
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>135,133</b>	<b>421,488</b>	<b>(28,917)</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ 242,400</b>	<b>\$ 134,223</b>	<b>\$ (4,545)</b>



Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF FINANCING**  
As of September 30, 2002 and 2001  
(\$ in thousands)

<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>	<b>Depot Maintenance Shipyards</b>	<b>Depot Maintenance Aviation</b>	<b>Depot Maintenance Marine Corps</b>
Components Requiring or Generating Resources in Future Periods:			
Increase in annual leave liability	\$ 0	\$ 0	\$ 0
Increase in environmental and disposal liability	0	0	0
Upward/Downward reestimates of credit subsidy expense	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0
Other (+/-)	0	0	0
Total components of Net Cost of Operations that will require or generate resources in future periods	0	0	0
Components not Requiring or Generating Resources:			
Depreciation and amortization	39,360	31,961	4,104
Revaluation of assets and liabilities (+/-)	0	0	0
Other (+/-)	0	0	0
Total components of Net Cost of Operations that will not require or generate resources	\$ 39,360	\$ 31,961	\$ 4,104
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	\$ 39,360	\$ 31,961	\$ 4,104
<b>Net Cost of Operations</b>	<u>\$ 281,760</u>	<u>\$ 166,184</u>	<u>\$ (441)</u>



The accompanying notes are an integral part of these financial statements. See note 1 and 22.

# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF FINANCING**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	Ordnance	Transportation	Base Support	Information Services
<b>Resources Used to Finance Activities:</b>				
Budgetary Resources Obligated				
Obligations Incurred	\$ 167,656	\$ 1,175,208	\$ 1,624,280	\$ 0
Less: Spending Authority from offsetting collections and recoveries (-)	(246,130)	(1,519,909)	(1,699,774)	0
Obligations net of offsetting collections and recoveries	(78,474)	(344,701)	(75,494)	0
Less: Offsetting receipts (-)	0	0	0	0
Net obligations	(78,474)	(344,701)	(75,494)	0
Other Resources				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Imputed financing from costs absorbed by others	156	5,591	36,748	0
Other (+/-)	0	0	0	0
Net other resources used to finance activities	156	5,591	36,748	0
<b>Total resources used to finance activities</b>	<b>\$ (78,318)</b>	<b>\$ (339,110)</b>	<b>\$ (38,746)</b>	<b>\$ 0</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
Undelivered orders (-)	\$ (300,464)	\$ (334,679)	\$ (100,885)	\$ 0
Unfilled Customer Orders	242,835	2,143	(47,666)	(20,328)
Resources that fund expenses recognized in prior periods	0	0	0	0
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0	0
Resources that finance the acquisition of assets	78,595	536,484	132,570	20,328
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations				
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0	0	0
Other (+/-)	0	0	0	0
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>20,966</b>	<b>203,948</b>	<b>(15,981)</b>	<b>0</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ (57,352)</b>	<b>\$ (135,162)</b>	<b>\$ (54,727)</b>	<b>\$ 0</b>

The accompanying notes are an integral part of these financial statements. See note 1 and 22.



Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF FINANCING**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	Ordnance	Transportation	Base Support	Information Services
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>				
Components Requiring or Generating Resources in Future Periods:	\$ 0	\$ 0	\$ 0	\$ 0
Increase in annual leave liability	0	0	0	0
Increase in environmental and disposal liability	0	0	0	0
Upward/Downward reestimates of credit subsidy expense	0	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0	0
Other (+/-)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Components not Requiring or Generating Resources:	0	3,645	17,285	0
Depreciation and amortization	0	0	0	0
Revaluation of assets and liabilities (+/-)	0	0	0	0
Other (+/-)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 0</u>	<u>\$ 3,645</u>	<u>\$ 17,285</u>	<u>\$ 0</u>
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	<u>\$ 0</u>	<u>\$ 3,645</u>	<u>\$ 17,285</u>	<u>\$ 0</u>
<b>Net Cost of Operations</b>	<u>\$ (57,352)</u>	<u>\$ (131,517)</u>	<u>\$ (37,442)</u>	<u>\$ 0</u>



The accompanying notes are an integral part of these financial statements. See note 1 and 22.



# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF FINANCING**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	Research & Development	Supply Management	Component Level	2002 Combined Total
<b>Resources Used to Finance Activities:</b>				
Budgetary Resources Obligated				
Obligations Incurred	\$ 9,545,269	\$ 6,508,908	\$ 0	\$ 23,986,959
Less: Spending Authority from offsetting collections and recoveries (-)	(9,567,067)	(6,266,302)	0	(24,595,806)
Obligations net of offsetting collections and recoveries	(21,798)	242,606	0	(608,847)
Less: Offsetting receipts (-)	0	0	0	0
Net obligations	(21,798)	242,606	0	(608,847)
Other Resources				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Imputed financing from costs absorbed by others	229,161	18,573	0	465,589
Other (+/-)	0	0	0	0
Net other resources used to finance activities	229,161	18,573	0	465,589
<b>Total resources used to finance activities</b>	<b>\$ 207,363</b>	<b>\$ 261,179</b>	<b>\$ 0</b>	<b>\$ (143,258)</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided				
Undelivered orders (-)	\$ (1,387,034)	\$ (466,996)	\$ (346,441)	\$ (3,023,627)
Unfilled Customer Orders	300,278	(71,975)	0	832,078
Resources that fund expenses recognized in prior periods	0	0	(46,521)	(46,725)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0	0	0
Resources that finance the acquisition of assets	463,513	1,527,601	2,219,911	5,167,247
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations				
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0	0	0
Other (+/-)	0	0	0	0
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>(623,243)</b>	<b>988,630</b>	<b>1,826,949</b>	<b>2,928,973</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ (415,880)</b>	<b>\$ 1,249,809</b>	<b>\$ 1,826,949</b>	<b>\$ 2,785,715</b>



Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF FINANCING**  
As of September 30, 2002 and 2001  
(\$ in thousands)

<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>	<b>Research &amp; Development</b>	<b>Supply Management</b>	<b>Component Level</b>	<b>2002 Combined Total</b>
<b>Components Requiring or Generating Resources in Future Periods:</b>				
Increase in annual leave liability	\$ 0	\$ 0	\$ 0	\$ 0
Increase in environmental and disposal liability	0	0	0	0
Upward/Downward reestimates of credit subsidy expense	0	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0	0
Other (+/-)	0	0	0	0
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Components not Requiring or Generating Resources:</b>				
Depreciation and amortization	104,163	9,971	0	210,489
Revaluation of assets and liabilities (+/-)	0	(555,389)	0	(555,389)
Other (+/-)	0	(41)	0	(41)
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 104,163</u>	<u>\$ (545,459)</u>	<u>\$ 0</u>	<u>\$ (344,941)</u>
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	<u>\$ 104,163</u>	<u>\$ (545,459)</u>	<u>\$ 0</u>	<u>\$ (344,941)</u>
<b>Net Cost of Operations</b>	<u><u>\$ (311,717)</u></u>	<u><u>\$ 704,350</u></u>	<u><u>\$ 1,826,949</u></u>	<u><u>\$ 2,440,774</u></u>



The accompanying notes are an integral part of these financial statements. See note 1 and 22.

# Supporting Consolidating/Combining Statements

Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF FINANCING**  
As of September 30, 2002 and 2001  
(\$ in thousands)

	<b>Restated 2001 Combined Total</b>	<b>2001 Combined Total</b>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated		
Obligations Incurred	\$ 21,312,876	\$ 21,312,876
Less: Spending Authority from offsetting collections and recoveries (-)	(21,608,321)	(21,608,321)
Obligations net of offsetting collections and recoveries	(295,445)	(295,445)
Less: Offsetting receipts (-)	0	0
Net obligations	(295,445)	(295,445)
Other Resources		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	(7,512)	(7,512)
Imputed financing from costs absorbed by others	473,394	473,394
Other (+/-)	0	0
Net other resources used to finance activities	465,882	465,882
<b>Total resources used to finance activities</b>	<b>\$ 170,437</b>	<b>\$ 170,437</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered orders (-)	\$ 2,802,411	\$ 2,802,411
Unfilled Customer Orders	214,618	214,618
Resources that fund expenses recognized in prior periods	(305)	(305)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations		
Resources that finance the acquisition of assets	0	0
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations	(520,950)	(3,013,554)
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0
Other (+/-)	0	0
<b>Total resources used to finance items not part of the Net Cost of Operations</b>	<b>2,495,774</b>	<b>3,170</b>
<b>Total resources used to finance the Net Cost of Operations</b>	<b>\$ 2,666,211</b>	<b>\$ 173,607</b>



Department of Defense  
Navy Working Capital Fund  
**COMBINING STATEMENT OF FINANCING**  
As of September 30, 2002 and 2001  
(\$ in thousands)

**Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:**

Components Requiring or Generating Resources in Future Periods:

	<b>Restated 2001 Combined Total</b>	<b>2001 Combined Total</b>
Increase in annual leave liability	\$ 0	\$ 0
Increase in environmental and disposal liability	0	0
Upward/Downward reestimates of credit subsidy expense	0	0
Increase in exchange revenue receivable from the public (-)	0	0
Other (+/-)	<u>149,042</u>	<u>149,042</u>
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>149,042</u>	<u>149,042</u>

Components not Requiring or Generating Resources:

Depreciation and amortization	210,671	210,671
Revaluation of assets and liabilities (+/-)	1,114,926	1,114,926
Other (+/-)	<u>0</u>	<u>0</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 1,325,597</u>	<u>\$ 1,325,597</u>
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	<u>\$ 1,474,639</u>	<u>\$ 1,474,639</u>
<b>Net Cost of Operations</b>	<u><u>\$ 4,140,850</u></u>	<u><u>\$ 1,648,246</u></u>



The accompanying notes are an integral part of these financial statements. See note 1 and 22.

Department of the Navy

# WORKING CAPITAL FUND REQUIRED SUPPLEMENTARY INFORMATION



NAVY WORKING CAPITAL FUND  
GENERAL PROPERTY, PLANT, AND EQUIPMENT  
Real Property Deferred Annual Sustainment and Restoration Tables  
As of September 30, 2002  
(\$ in Millions)

Annual Sustainment FY 2002			
	Required	Actual	Difference
Navy			
Marine Corps			
<b>Building, Structures, and Utilities</b>	306.9	306.9	0

Annual Deferred Sustainment Trend			
	FY 2000	FY 2001	FY 2002
Navy			
Marine Corps			
<b>Building, Structures, and Utilities</b>	-	72	0

Restoration and Modernization Requirements			
	End FY 2001	End FY 2002	Change
Navy			
Marine Corps			
<b>Building, Structures, and Utilities</b>	-	-	-

**Narrative Statement:**

In FY 2002, Navy Working Capital Fund (NWCF) facilities transitioned to the Office of the Secretary of Defense's Facility Sustainment Model for calculating deferred sustainment and restoration. FY 2001 facility investments were programmed, budgeted, and executed before application of the Facility Sustainment Model. Therefore, the fluctuations between FY 2001 data and FY 2002 data are attributable to the revised reporting methodology.

The quality of data used in the Facility Sustainment Model continued to undergo quality checks in FY 2002, resulting in a more accurate accounting of deferred sustainment requirements.

Presently, a separate breakout between Navy and Marine Corps sustainment amounts cannot be provided. Due to this limitation, information in the Real Property Deferred Annual Sustainment and Restoration Tables are presented in total for the Department of the Navy (DON).

The Facility Sustainment Model calculates facility sustainment investment based on DON property inventory, facility type, key units of measure, geographic location and industry standards. These variables are constantly being examined to reduce errors and eliminate disconnects for unique DON facility requirements.

The NWCF has no material amounts of deferred sustainment for the General Property, Plant, and Equipment category of Personal Property.



## Required Supplementary Information

Schedule, Part A DoD Intragovernmental Asset Balances (\$ Amounts in Thousands)	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Executive Office of the President	11		\$ 19,496			
Department of Agriculture	12		174			
Department of Commerce	13		225			
Department of the Interior	14		60			
Department of Justice	15		910			
Department of Labor	16		121			
Navy General Fund	17		348,895			
Department of State	19		4,782			
Department of the Treasury	20	\$ 1,709,679	740			
Army General Fund	21		14,247			
Federal Trade Commission	29		289			
Department of Veterans Affairs	36		2,195			
General Service Administration	47		784			
National Science Foundation	49		1,012			
General Printing Office	5		840			
Air Force General Fund	57		11,688			
Tennessee Valley Authority	64		23			
Environmental Protection Agency	68		1,998			
Department of Transportation	69		10,548			
Small Business Administration	73		33			
Department of Health and Human Services	75		76			
National Aeronautics and Space Administration	80		769			
Department of Energy	89		1,810			
US Army Corps of Engineers	96		608			
Other Defense Organizations General Funds	97		79,495			
Other Defense Organizations Working Capital Funds	97-4930		17,382			
Army Working Capital Fund	97-4930.001		843			\$ 142
Navy Working Capital Fund	97-4930.002					
Air Force Working Capital Fund	97-4930.003		5,199			124
<b>TOTALS</b>		<b>\$ 1,709,679</b>	<b>\$ 525,242</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 266</b>





Schedule, Part B DoD Intragovernmental Entity Liabilities (\$ Amounts In Thousands)	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Executive Office of the President	11			\$ 146
Department of Agriculture	12			1,478
Department of Commerce	13			4,400
Department of the Interior	14			298
Department of Justice	15			26,598
Navy General Fund	17	\$ 253,581		65,900
United States Postal Service	18			225
Department of State	19			3,952
Department of the Treasury	20		\$ 750,725	4,308
Army General Fund	21	9,680		
Office of Personnel Management	24			36,492
Social Security Administration	28			49
General Service Administration	47			89
National Science Foundation	49			10,817
Federal Emergency Management Agency	58			1,741
National Foundation on the Arts and Humanities	59			30
Environmental Protection Agency	68			80
Department of Transportation	69			3,683
Agency for International Development	72			4,292
Department of Health and Human Services	75			812
National Aeronautics and Space Administration	80			9,956
Department of Energy	89			2,105
Department of Education	91			358
US Army Corps of Engineers	96	84		
Other Defense Organizations General Funds	97	5,740		
Other Defense Organizations Working Capital Funds	97-4930	155,769		
Army Working Capital Fund	97-4930.001	1,823		
Air Force Working Capital Fund	97-4930.003	8,095		
<b>TOTALS</b>		<b>\$ 434,772</b>	<b>\$ 750,725</b>	<b>\$ 177,809</b>



## Required Supplementary Information

Schedule, Part C DoD Intragovernmental Revenue and Related Costs (S Amounts in Thousands)	Treasury Index	Earned Revenue
Executive Office of the President	11	\$ 98,581
Department of Agriculture	12	2,099
Department of Commerce	13	9,461
Department of the Interior	14	536
Department of Justice	15	37,466
Department of Labor	16	781
Navy General Fund	17	17,766,429
United States Postal Service	18	80
Department of State	19	15,629
Department of the Treasury	20	3,456
Army General Fund	21	187,088
Social Security Administration	28	103
Nuclear Regulatory Commission	31	133
Smithsonian Institution	33	18
Department of Veterans Affairs	36	4,261
General Service Administration	47	1,352
National Science Foundation	49	13,304
Air Force General Fund	57	268,628
Federal Emergency Management Agency	58	45
National Foundation on the Arts and Humanities	59	142
Tennessee Valley Authority	64	23
Environmental Protection Agency	68	2,722
Department of Transportation	69	39,241
Agency for International Development	72	8,334
Small Business Administration	73	139
Department of Health and Human Services	75	4,089
National Aeronautics and Space Administration	80	32,315
Department of Energy	89	36,214
Department of Education	91	4,966
US Army Corps of Engineers	96	846
Other Defense Organizations General Funds	97	1,962,778
Other Defense Organizations Working Capital Funds	97-4930	147,301
Army Working Capital Fund	97-4930.001	27,226
Air Force Working Capital Fund	97-4930.003	240,514
<b>TOTAL</b>		<b>\$ 20,916,260</b>





Department of the Navy

# NAVY WORKING CAPITAL FUND OTHER ACCOMPANYING INFORMATION



## APPROPRIATIONS, FUNDS, AND ACCOUNTS INCLUDED IN THE FINANCIAL STATEMENTS

### Reporting Entity

Navy Working Capital Fund

### Fund/Account Treasury Symbol and Title:

97X4930 002

### Navy Working Capital Fund Activity Group Treasury Symbol and Title:

97X4930.NA1*	Depot Maintenance-Shipyards
97X4930.NA2*	Depot Maintenance-Aviation
97X4930.NA4*	Depot Maintenance-Other (Marine Corps)
97X4930.NA3 <sup>a</sup>	Ordnance
97X4930.ND*	Transportation
97X4930.NE**	Base Support
97X4930.NF <sup>b</sup>	Information Services
97X4930.NH**	Research and Development
97X4930.NC**	Supply Management

### Notes

- \* The "\*" represents alpha or numeric characters which identify an activity or reporting segment of the activity group.
- <sup>a</sup> The Ordnance activity group became a part of the DON General Fund in FY 2000. The Ordnance information included in this report represents residual NWCF accounting for this group.
- <sup>b</sup> The Information Services activity group was dissolved at the end of FY 2001. The Information Services information included in this report represents residual NWCF accounting for this group.



# AUDIT OPINIONS





INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

January 7, 2003

**MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)**

**SUBJECT: Independent Auditor's Report on the Department of the Navy General Fund  
Fiscal Year 2002 Principal Financial Statements (Report No. D-2003-044)**

The Chief Financial Officers Act of 1990, as amended, requires the Inspector General of the Department of Defense to audit the accompanying Consolidated Balance Sheet of the Department of the Navy General Fund as of September 30, 2002 and 2001, the related Consolidated Statements of Net Cost and Changes in Net Position, and the Combined Statements of Financing and Budgetary Resources for the fiscal years then ended. These financial statements are the responsibility of Department of the Navy management. The Department of the Navy is also responsible for implementing effective internal control and for complying with laws and regulations. We are including the required reports on internal control and compliance with laws and regulations.

**Disclaimer of Opinion on the Financial Statements**

The Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged to us that the Department of the Navy has identified material deficiencies in accounting and financial management systems, policies and procedures, internal control structure, and compliance with laws and regulations. Therefore, we did not perform auditing procedures to support material amounts on the financial statements. In addition, other auditing procedures were not performed because Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. The material deficiencies reported by the Department of the Navy also affect the reliability of certain information contained in the accompanying Management Discussion and Analysis and certain other information—much of which is taken from the same data sources as the principal financial statements.<sup>1</sup> These deficiencies would have precluded an audit opinion. As described above, we are unable to express, and we do not express, an opinion on the financial statements and the accompanying information.



# General Fund Audit Opinion

## Summary of Internal Control

In planning and performing our audit, we considered the Department of the Navy internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance but not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance because previously identified reportable conditions<sup>2</sup> were material and continue to exist in the following areas: accounting and financial management systems, policies and procedures, internal control structure, and compliance with laws and regulations. A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance that are material in relation to the financial statements would be prevented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on material internal control weaknesses.

## Summary of Compliance with Laws and Regulations

We also considered the Department of the Navy General Fund compliance with applicable laws and regulations. Management has acknowledged that critical financial management and feeder systems do not comply with Federal financial systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level, as required under Federal Financial Management Improvement Act of 1996. These material compliance issues have been previously reported. In accordance with Section 1008 of the National Defense Authorization Act and the assertions made by management, we limited our audit work in this area. Therefore, we did not determine whether the Department of the Navy was in compliance with all applicable laws and regulations related to financial reporting. See the Attachment for additional details on compliance with laws and regulations.

In order for DoD to comply with statutory reporting requirements and applicable financial systems requirements, the Under Secretary of Defense (Comptroller)/Chief Financial Officer is developing the DoD-wide financial management enterprise architecture. The DoD anticipates developing and implementing the financial management enterprise architecture by 2007. Until the architecture is developed and implemented, the Department of the Navy will be unable to fully comply with the statutory reporting requirements.

We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to express an opinion on compliance with applicable laws and regulations.

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<sup>2</sup> Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.



## Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles,
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 are met,
- ensuring that the Department of the Navy financial management systems substantially comply with Federal Financial Management Improvement Act of 1996 requirements, and
- complying with applicable laws and regulations.



David K. Steensma  
Deputy Assistant Inspector General  
for Auditing



Attachment  
As stated



# General Fund Audit Opinion

## Reports on Internal Control and Compliance with Laws and Regulations

### Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; and that assets are safeguarded. We did not perform tests of internal control over financial reporting of the Department of the Navy General Fund financial statements and we did not obtain sufficient evidence to support or express an opinion on internal control. We limited our audit tests because previously identified reportable conditions, all of which are material, continue to exist in the following areas:

- **Accounting and Financial Management Systems.** Department of the Navy system deficiencies included the inability to implement elements of generally accepted accounting principles (GAAP) and inadequate implementation of the U.S. Government Standard General Ledger.
- **Policies and Procedures.** Department of the Navy financial reporting is not accurate due to inadequate guidance and lack of standard operating procedures, reconciliations are not adequately completed, and valuation of inventory and Operating Materials and Supplies does not comply with GAAP.
- **Efficiency and Effectiveness of Operations.** Department of the Navy legacy systems do not maintain the historical cost data necessary to comply with Statement of Federal Financial Accounting Standard No. 3, "Accounting for Inventory and Related Property"; the accuracy and reliability of financial data is adversely affected by non-financial feeder systems and journal voucher adjustments; and problem disbursements cause data errors and unreliable obligation data.

### Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continue to exist. Therefore, we did not attempt to determine whether the Department of the Navy General Fund was in compliance with the provisions of all applicable laws and regulations related to financial reporting. Our objective was not to express an opinion on compliance with applicable laws and regulations.

The Department of the Navy is required to comply with the following statutory financial management systems reporting requirements.

The Federal Financial Management Improvement Act of 1996 requires the Department of the Navy to establish and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In addition, the Federal Managers' Financial Integrity Act of 1982 requires the Department of the Navy to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements. The Chief Financial Officers Act of 1990 requires the Department of



the Navy to prepare a 5-year Financial Management Plan describing activities that the Department of the Navy will conduct during the next 5 years to improve financial management.

The Department of the Navy acknowledged that many of its critical financial management and feeder systems do not comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In an attempt to comply with statutory reporting requirements and applicable financial systems requirements, DoD plans to develop a DoD-wide financial management enterprise architecture. The architecture is intended to provide a "blueprint" of the DoD financial management systems and processes to initiate a comprehensive financial management reform effort. Until the architecture is developed, the Department of the Navy will be unable to fully comply with the statutory reporting requirements. Therefore, we did not perform tests of compliance for these requirements.

### **Audit Disclosures**

The Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged in his preliminary management representation, dated August 9, 2002, that financial management systems are not in compliance with provisions of the Federal Financial Management Improvement Act because they cannot provide adequate evidence supporting various material amounts on the financial statements. As a result of management's representations, we performed only limited audit procedures necessary to issue a disclaimer of opinion. Therefore, we were unable to obtain adequate evidential matter to form or express an opinion on the financial statements, internal controls, and compliance with laws and regulations.

Accordingly, we did not conduct audit followup work on deficiencies related to material line items identified in the Naval Audit Service FY 2001 Department of the Navy General Fund financial statement audit. The material line items included: Fund Balance with Treasury; General Property, Plant, and Equipment; Inventory and Related Materials; Accounts Receivable; and Accounts Payable. The Department of the Navy has acknowledged that these deficiencies continue to exist.

In addition, we did not perform audit tests of Department of the Navy General Fund compliance with the following laws: Federal Financial Management Improvement Act, Anti-deficiency Act, provisions governing claims of the United States Government, Federal Credit Reform Act of 1990, Pay and Allowance System for Civilian Employees, and the Prompt Payment Act.





# Working Capital Fund Audit Opinion



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-4704

January 7, 2003

## MEMORANDUM FOR ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Independent Auditor's Report on the Department of the Navy Working Capital Fund  
Fiscal Year 2002 Principal Financial Statements (Report No. D-2003-045)

The Chief Financial Officers Act of 1990, as amended, requires the Inspector General of the Department of Defense to audit the accompanying Consolidated Balance Sheet of the Department of the Navy Working Capital Fund as of September 30, 2002 and 2001, the related Consolidated Statements of Net Cost and Changes in Net Position, and the Combined Statements of Financing and Budgetary Resources for the fiscal years then ended. These financial statements are the responsibility of the Department of the Navy management. The Department of the Navy is also responsible for implementing effective internal control and for complying with laws and regulations. We are including the required reports on internal control and compliance with laws and regulations.

### Disclaimer of Opinion on the Financial Statements

The Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged to us that the Department of the Navy has identified material deficiencies in accounting and financial management systems, policies and procedures, internal control structure, and compliance with laws and regulations. Therefore, we did not perform auditing procedures to support material amounts on the financial statements. In addition, other auditing procedures were not performed because Section 1008(d) of the FY 2002 National Defense Authorization Act requires the Inspector General of the Department of Defense to perform only audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. The material deficiencies reported by the Department of the Navy also affect the reliability of certain information contained in the accompanying Management Discussion and Analysis and certain other information—much of which is taken from the same data sources as the principal financial statements.<sup>1</sup> These deficiencies would have precluded an audit opinion. As described above, we are unable to express, and we do not express, an opinion on the financial statements and the accompanying information.





## Summary of Internal Control

In planning and performing our audit, we considered the Department of the Navy internal control over financial reporting and compliance. We did this to determine our procedures for auditing the financial statements and to comply with Office of Management and Budget guidance but not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting and compliance because previously identified reportable conditions<sup>2</sup> were material and continue to exist in the following areas: accounting and financial management systems, policies and procedures, internal control structure, and compliance with laws and regulations. A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance that are material in relation to the financial statements would be presented or detected on a timely basis. Our internal control work would not necessarily disclose all material weaknesses. See the Attachment for additional details on material internal control weaknesses.

## Summary of Compliance with Laws and Regulations

We also considered the Department of the Navy Working Capital Fund compliance with applicable laws and regulations. Management has acknowledged that critical financial management and feeder systems do not comply with Federal financial systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level, as required under Federal Financial Management Improvement Act of 1996. These material compliance issues have been previously reported. In accordance with Section 1008 of the National Defense Authorization Act and the assertions made by management, we limited our audit work in this area. Therefore, we did not determine whether the Department of the Navy was in compliance with all applicable laws and regulations related to financial reporting. See the Attachment for additional details on compliance with laws and regulations.

In order for DoD to comply with statutory reporting requirements and applicable financial systems requirements, the Under Secretary of Defense (Comptroller)/Chief Financial Officer is developing the DoD-wide financial management enterprise architecture. The DoD anticipates developing and implementing the financial management enterprise architecture by 2007. Until the architecture is developed and implemented, the Department of the Navy will be unable to fully comply with the statutory reporting requirements.

We caution that other noncompliance may have occurred and not been detected. Further, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws and regulations. See the Attachment for additional details on compliance with laws and regulations.

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<sup>2</sup> Reportable conditions are matters coming to the auditor's attention that, in his or her judgment, should be communicated to management because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

# Working Capital Fund Audit Opinion

## Management Responsibility

Management is responsible for:

- preparing the financial statements in conformity with generally accepted accounting principles,
- establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the Federal Managers' Financial Integrity Act of 1982 are met,
- ensuring that the Department of the Navy financial management systems substantially comply with Federal Financial Management Improvement Act of 1996 requirements, and
- complying with applicable laws and regulations.



David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

Attachment  
As stated





## Reports on Internal Control and Compliance with Laws and Regulations

### Internal Control

Management is responsible for implementing effective internal control and for providing reasonable assurance that accounting data are accumulated, recorded, and reported properly; and that assets are safeguarded. We did not perform tests of internal control over financial reporting of the Department of the Navy Working Capital Fund financial statements and did not obtain sufficient evidence to support or express an opinion on internal control. We limited our audit tests because previously identified reportable conditions, all of which are material, continue to exist in the following areas:

- **Accounting and Financial Management Systems.** Department of the Navy system deficiencies included the inability to implement elements of generally accepted accounting principles (GAAP) and inadequate implementation of the U.S. Government Standard General Ledger. Also, accounting entries were needed to correct errors caused by differences between accounting systems.
- **Policies and Procedures.** Department of the Navy financial reporting is not accurate due to inadequate guidance and lack of standard operating procedures; reconciliations are not adequately completed; and valuation of inventory and Operating Materials and Supplies does not comply with GAAP.
- **Efficiency and Effectiveness of Operations.** Existence, location, and condition of General Property, Plant, and Equipment in the Department of the Navy are not adequately maintained and reported; the accuracy and reliability of financial data is adversely affected by non-financial feeder systems and journal voucher adjustments; and problem disbursements cause data errors and unreliable obligation data.

### Compliance with Laws and Regulations

Management is responsible for compliance with existing laws and regulations related to financial reporting. Our work to determine compliance with selected provisions of the applicable laws and regulations was limited because management acknowledged instances of noncompliance, and previously reported instances of noncompliance continue to exist. Therefore, we did not attempt to determine whether the Department of the Navy was in compliance with the provisions of all applicable laws and regulations related to financial reporting. Our objective was not to express an opinion on compliance with applicable laws and regulations.

The Department of the Navy is required to comply with the following statutory financial management systems reporting requirements.

The Federal Financial Management Improvement Act of 1996 requires the Department of the Navy to establish and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. In addition, the Federal Managers' Financial Integrity Act of 1982 requires the Department of the Navy to evaluate the systems and to annually report whether those systems are in compliance with applicable requirements. The Chief Financial Officers Act of 1990 requires the Department of



# Working Capital Fund Audit Opinion

the Navy to prepare a 5-year Financial Management Plan describing activities that the Department of the Navy will conduct during the next 5 years to improve financial management.

The Department of the Navy acknowledged that many of its critical financial management and feeder systems do not comply with Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Prior audits support management's conclusions. In an attempt to comply with statutory reporting requirements and applicable financial systems requirements, DoD plans to develop a DoD-wide financial management enterprise architecture. The architecture is intended to provide a "blueprint" of the DoD financial management systems and processes to initiate a comprehensive financial management reform effort. Until the architecture is developed, the Department of the Navy will be unable to fully comply with the statutory reporting requirements. Therefore, we did not perform tests of compliance for these requirements.

## Audit Disclosures

The Assistant Secretary of the Navy (Financial Management and Comptroller) acknowledged in his preliminary management representation letter, dated August 9, 2002, that financial management systems are not in compliance with provisions of the Federal Financial Management Improvement Act because they cannot provide adequate evidence supporting various material amounts on the financial statements. As a result of management's representations, we performed only limited audit procedures necessary to issue a disclaimer of opinion. Therefore, we were unable to obtain adequate evidential matter to form or express an opinion on the financial statements, internal controls, and compliance with laws and regulations.

Accordingly, we did not conduct audit followup work on deficiencies related to material line items identified in the Naval Audit Service FY 2001 Navy Working Capital Fund financial statement audit. The material line items included: Fund Balance with Treasury; General Property, Plant, and Equipment; Inventory and Related Materials; Accounts Receivable; and Accounts Payable. The Department of the Navy has acknowledged that these deficiencies continue to exist.

In addition, we did not perform audit tests of Department of the Navy compliance with the following laws: Federal Financial Management Improvement Act, Anti-deficiency Act, provisions governing claims of the United States Government, Federal Credit Reform Act of 1990, Pay and Allowance System for Civilian Employees, and the Prompt Payment Act.

